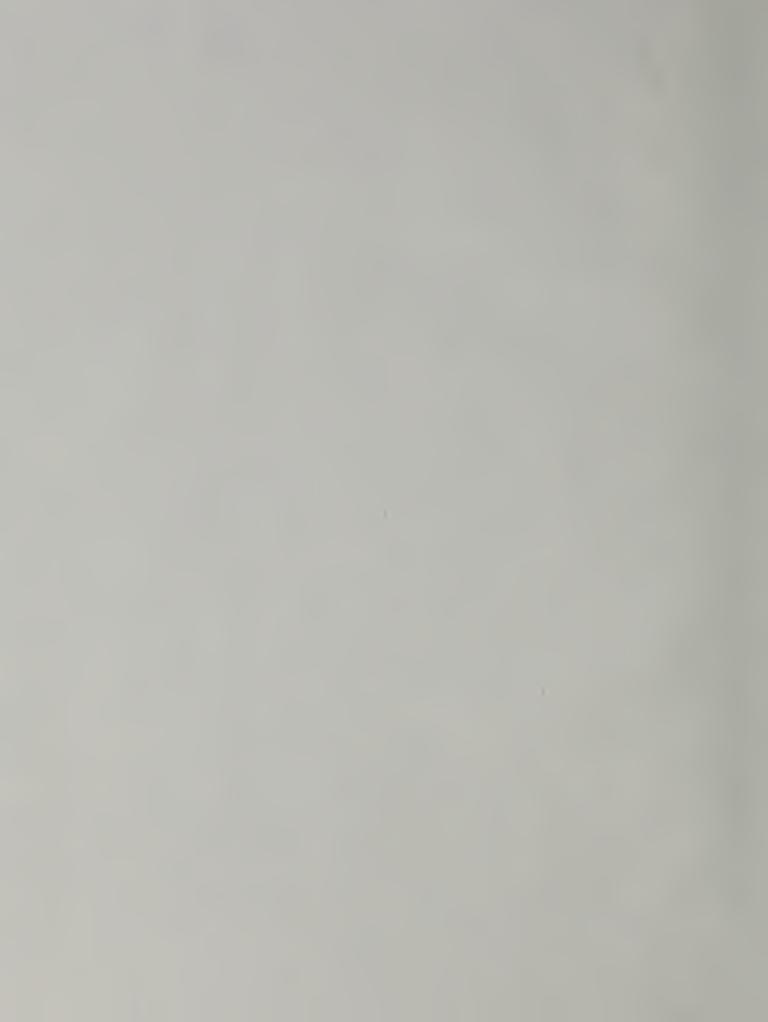
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SOUTH ESSEX SEWERAGE DISTRICT

Financial Statements

June 30, 1985

(With Accountants' Report Thereon)





Peat, Marwick, Mitchell & Co. Certified Public Accountants One Boston Place Boston, Massachusetts 02108 617-723-7700

The Board of Directors
South Essex Sewerage District:

We have examined the combined balance sheet of South Essex Sewerage District as of June 30, 1985 and the related statements of revenues, expenditures and changes in fund equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of South Essex Sewerage District at June 30, 1985 and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes, with which we concur, in the method of accounting for district members assessments and the reporting of capital projects as described in note 3 to the financial statements.

August 9, 1985

Peat, Manuele, Mathele 660



Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1985

								must adius	, Sy
Combined Total (Memorandum only)	790,853 1,106,866 2,713 30,000 2,916,476 9,535	244,093 55,255,046 11,780,000	72,135,582	30,000 2,628,000 560,748 1,346 1,127 11,780,000	15,001,221	521,119 67,503 55,499,139 (1,869,87 <u>6</u> )	54,217,885	72,135,582	New Fund S
Groups Long-term Debt		11,780,000	11,780,000		11,780,000	1 1 1 1	,	11,780,000	Set un
Account Groups Fixed Long Assets Deb		244,093	55,499,139	13.0X		55,499,139	55,499,139	55,499,139	must s
Capital Projects	411,248 106,866 6.0 K <sup>-</sup> 2,916,476	1 1 1	3,434,590	30,000 - Book	2,658,000	419,000 67,503 (2,626,389)	(2,139,886)	3,434,590	1
General	\$ 379,605 411 1,000,000 106 2,713 30,000—6.0 K— - 2,916 9,535	1 1 1	\$ 1,421,853	560,748	563,221	102,119	858,632	\$ 1,421,853	
Assets	Cash Investments, at cost (approximates market) Assessments receivable Due from Capital Projects Fund Intergovenmental grants receivable Other assets Property, plant and equipment (note 4):	Land Waste treatment facilities Amount to be provided for retirement of bonds payable	Tishilirias Deformed Powering and Found Formity.	Liabilities: Due to General Fund Short-term borrowings (note 5) Member assessment refunds Warrants payable Accrued expenses Bonds payable (note 6)	Total liabilities Deferred revenue	Fund equity: Reserve for continuing appropriationa (note 9) Reserve for specific expenditure Investment in fixed assets Unreserved fund equity (deficit)	Total fund equity		See accompanying notes to financial statements.



# Statement of Revenues, Expenditures, Transfers and Changes in Fund Equity General Fund

# Year ended June 30, 1985

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments	\$ 9,815,124	7,713,123	(2,102,001)
Interest	-	258,935	258,935
Septage receipts		24,616	24,616
Total revenues	9,815,124	7,996,674	(1,818,450)
Expenditures:			
General administration:			
Personnel costs	184,482	172,361	12,121
Expenses	561,166	658,802	(97,636)
Parissains	745,648	831,163	(85,515)
Engineering: Personnel costs	322,048	252,426	69,622
Expenses	298,555	33,930	264,625
anpenses	620,603	286,356	334,247
Operations:			
Personnel costs	761,779	579,548	182,231
Expenses	5,424,810	3,218,917	2,205,893
	6,186,589	3,798,465	2,388,124
Maintenance:			
Personnel costs	381,128	351,182	29,946
Expenses	358,470	306,249	52,221
Construction debt service:	739,598	657,431	82,167
Principal	755,000	755,000	_
Interest	692,455	692,455	-
2116016016	1,447,455	1,447,455	-
			<del></del>
In lieu of taxes	70,000	70,000	
Total expenditures	9,809,893	7,090,870	2,719,023
Excess of revenue over expenditures	5,231	905,804	900,573
expenditules	7,231	707,004	500,575
Transfer to Capital Projects Fund		419,000	(419,000)
Excess of revenues over			
expenditures and transfers	\$5,231	486,804	481,573
Fund deficit - as originally reported, June 30, 1984		(2,412,011)	
Adjustments (note 3):  To establish separate capital projects fund as of June 30, 1984 Change in accounting for member assessme	nts	3,019,771 (235,932) 2,783,839	
Fund equity - as restated, June 30, 1984		371,828	
Fund balance, June 30, 1985		\$ 858,632	



# Statement of Revenues, Expenditures and Changes in Fund Equity

# Capital Projects Fund

# Year ended June 30, 1985

	Phase I	Phase II	Phase III	Phase IV	Total
Revenues:					
Member assessment \$	38,769	117,819	99,292	42,754	298,634
Intergovernmental revenues		147,191	77,688		224,879
	38,769	265,010	176,980	42,754	523,513
Expenditures:					
Interest expense	38,769	117,819	99,292	42,754	298,634
Capital outlay		1,997,520	251,341	15,133	2,263,994
	38,769	2,115,339	350,633	57,887	2,562,628
Excess of expenditures				(	()
over revenues	-	(1,850,329)	(173,653)	(15,133)	(2,039,115)
Other financing sources:					
Transfer from General Fund					/10
(note 9)	-	391,000	28,000	-	419,000
Proceeds of general obli-	100 000	1 (7)			0 500 000
gation bonds	199,000	1,676,000	625,000		2,500,000
	199,000	2,067,000	653,000	-	2,919,000
- /,					
Excess (deficiency)					
of revenues and					
other sources over	100 000	016 671	/ 70 2/ 7	(15 122)	070 005
expenditures	199,000	216,671	479,347	(15,133)	879,885
Po. 1 5-1					
Fund balance as originally					
reported, June 30, 1984	-	-	-	_	_
Fund deficit transferred from					
general fund as of June 30,					
1984	(166 057)	(1 / 7/ 52/)	(020 025)	(5/0 /55)	(2 010 771)
1704	(166,957)	(1,474,534)	(020,02)	(549,455)	(3,019,771)
Fund deficit - June 30, 1985 \$	32,043	(1,257,863)	(349,478)	(564 588)	(2,139,886)
Tana derrete June 30, 1707 9	=======================================	(1,2)7,003)		(704,700)	(2,13),530)



### Notes to Financial Statements

June 30, 1985

# (1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

# (2) Summary of Significant Accounting Policies

The District follows generally accepted accounting and reporting principles as promulgated by the Governmental Accounting Standards Board. Significant accounting policies followed by the District are as follows:

(a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

<u>Capital Projects Funds</u> - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

The District maintains two account groups for purposes of establishing control and accountability for the its' general fixed assets and general long-term debt.

(Continued)



### Notes to Financial Statements

(b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred.

(c) Intergovernmental Revenue

Estimated reimburseable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon formal application to the respective governments for reimbursement of costs.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies will result in a capital project being undertaken. Interest incurred during the period of construction is capitalized. Depreciation expense is not recognized as a cost of providing service and therefore is not reflected in the financial statements of the District.

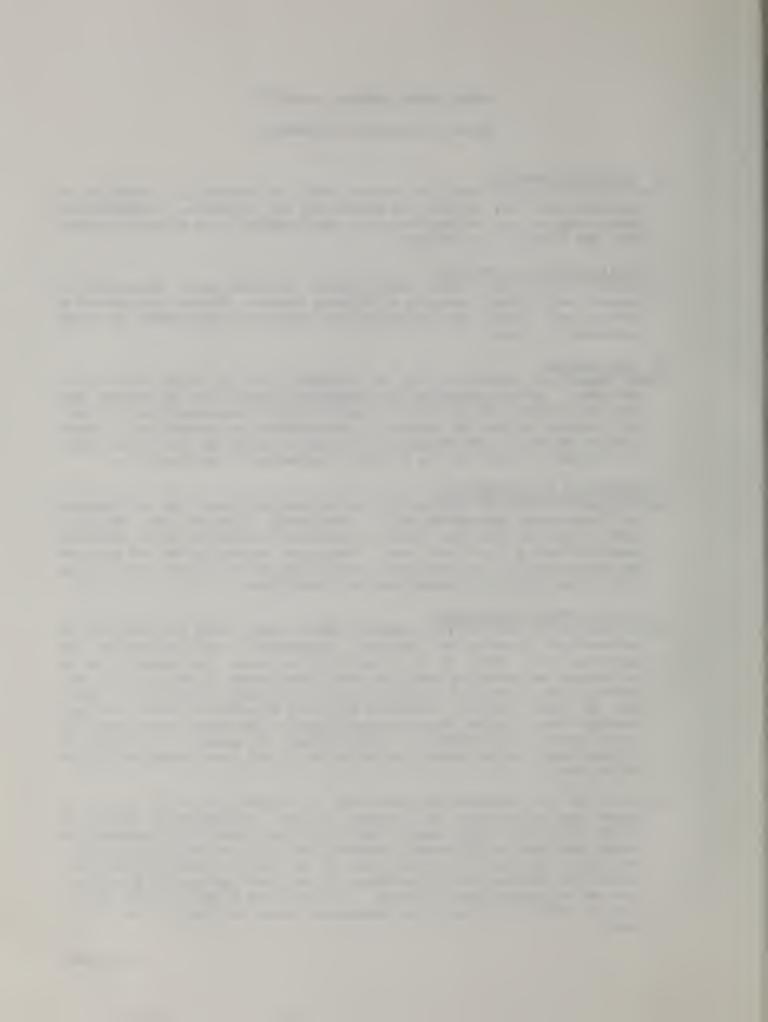
(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

- Costs incurred by the District include capital cost, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other district costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and billed yearly.
- A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the district can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the district to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the district governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities. In 1985, the District Board and all district member municipalities unanimously voted to override the 2-1/2% limit.

(Continued)



### Notes to Financial Statements

# (3) Changes in Accounting and Reporting

The District made one accounting change and one reporting change during the year. First, the method of accounting for district member assessments was changed from the amount billed during the year to the amount billed adjusted for over or under assessments. This accounting change will result in reporting assessment revenue on an earned rather than cash receipts basis. The change, which was made retroactively, had the effect of reducing assessment revenues by \$235,932 in 1984 and increasing assessment revenues by \$322,103 in 1985.

In addition to the above accounting change, the District decided to report construction project activity in a separate Capital Projects Fund. Accounting for elements of construction project revenues, expenditures and other financing transactions remained the same. Management believes that this reporting change will result in a better understanding of the financing activities of the District. The change was made retroactively.

# (4) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group, by major category, at June 30, 1985, are as follows:

	Balance at June 30, 1984	Additions	Disposals	Balance at June 30, 1985
	Julie 30, 1904	Addicions	DISPOSATS	Julie 30, 1707
Land	\$ 244,093	<u> </u>		244,093
Water treatment				
facilities:				
Phase I	11,525,426	-	-	11,525,426
Phase II	26,550,139	1,801,594	-	28,351,733
Phase III	8,902,571	234,102	-	9,136,673
Phase IV	6,231,449	9,765		6,241,214
	53,209,585	2,045,461		55,255,046
	\$ 53,453,678	2,045,461	<u>-</u>	55,499,139

# (5) Short-term Borrowings

The District regularly issues construction loan notes in anticipation of Federal and state grants and proceeds from the issuance of bonds. Short-term borrowings are repaid with grant or bond proceeds. Notes outstanding at June 30, 1985 are as follows:

	Amount	Due date	Interest <u>rate</u>
Arlington Trust	\$ 250,000	6/27/86	5.15%
Capitol Bank	250,000	6/27/86	4.99
Century North Shore	300,000	6/27/86	4.97
Century North Shore	200,000	6/27/86	5.21
Bank of Boston	1,000,000	6/27/86	5.24
Bank of New England	628,000	6/27/86	5.13
	\$ 2 629 000		

\$ <u>2,628,000</u>



# Notes to Financial Statements

# (6) Bonds Payable

Bonds Payable	
A summary of bonds payable at June 30, 1985 follows:	
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,230,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1992 and \$35,000 thereafter through 2004.	740,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2,000.	880,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	80,000
Fifth Series A 7.08% bonds payable in annual install- ments of \$22,686 through 1990, \$17,512 through 1991, \$17,114 through 1994, \$16,716 through 1995.	199,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2006.	2,420,000
Second series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2000.	1,040,000
Third series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,225,000
Fourth Series B 7.08% bonds payable in annual install- ments of \$191,064 through 1990, \$147,488 through 1991, \$144,136 through 1994, \$140,784 through 1995.	1,676,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,230,000
Second Series C 7.08% bonds payable in annual install- ments of \$71,250 through 1990, \$55,000 through 1991, \$53,750 through 1994, \$52,500 through 1995.	625,000
Marblehead Series 4.25% serial bonds payable in annual installments of \$50,000 through 1986.	100,000
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1987 and \$40,000 thereafter through 1992.	335,000
Total bonds payable	\$ 11,780,000
	(Continued)



### Notes to Financial Statements

The aggregate maturities of long-term debt follows:

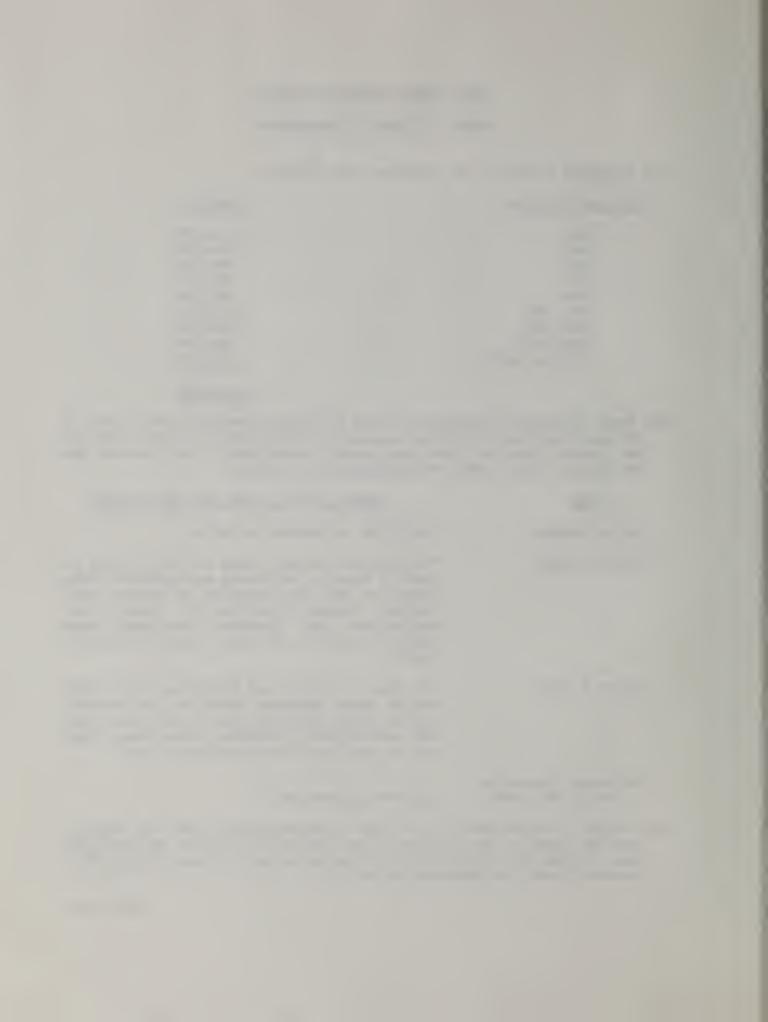
Year ended June 30:	Amount
1986 1987 1988 1989 1990 1991-1995 1996-2000 2001-2005 2006/thereafter	\$ 1,040,000 1,040,000 990,000 985,000 985,000 3,820,000 1,660,000 1,040,000 220,000
	\$ <u>11,780,000</u>

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

Bond	Member cities, towns and institutions
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).
Marblehead Series and Act of 1972 Bonds	The Town of Marblehead.

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1985, the District was authorized to issue \$22,200,000 in connection with its construction projects.

(Continued)



# Notes to Financial Statements

### (7) Pension Plan

The District's employees participate in the City of Salem Contributory Retirement system. The system is subject to the provisions of Chapter 32 of the Massachusetts General Laws. Annual contributions to the plan are determined by the Retirement Board of the system and certified by the State Division of Insurance. Pension costs for the year ended June 30, 1985 amounted to \$199,000 and were charged to general fund operating expense.

# (8) Litigation

The District is involved in negotations with Federal and state agencies regarding alleged polluting conditions. The District is taking actions to eliminate the alleged problems and believes that the actions will be successful.

# (9) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1985 are being carried forward to subsequent years as follows:

# Maintenance and Operations:

Station wagon	\$ 12,393
Cleaning Peabody sewer line	12,578
Robbins-Myers Mazorators	16,080
Gilbert & Cole	1,904
F.W. Webb Co.	1,173
Standby transformer	33,991
Tank repair	24,000
	102,119

# Construction Projects:

Phase two (W.P.C.):	
C.D.M. Ventilation design and construction	120,000
C.D.M. first phase of ocean data	211,000
Interest on lime stabilization	
construction	60,000
	391,000
Metcalf and Eddy Phase three design	
(Beverly/Danvers)	28,000
	419,000
` ;	521,119



1, 186-99/

SOUTH ESSEX SEWERAGE DISTRICT

Financial Statements

June 30, 1986

(With Accountants' Report Thereon)





Peat, Marwick, Mitchell & Co. Certified Public Accountants One Boston Place Boston, Massachusetts 02108 517-723-7700

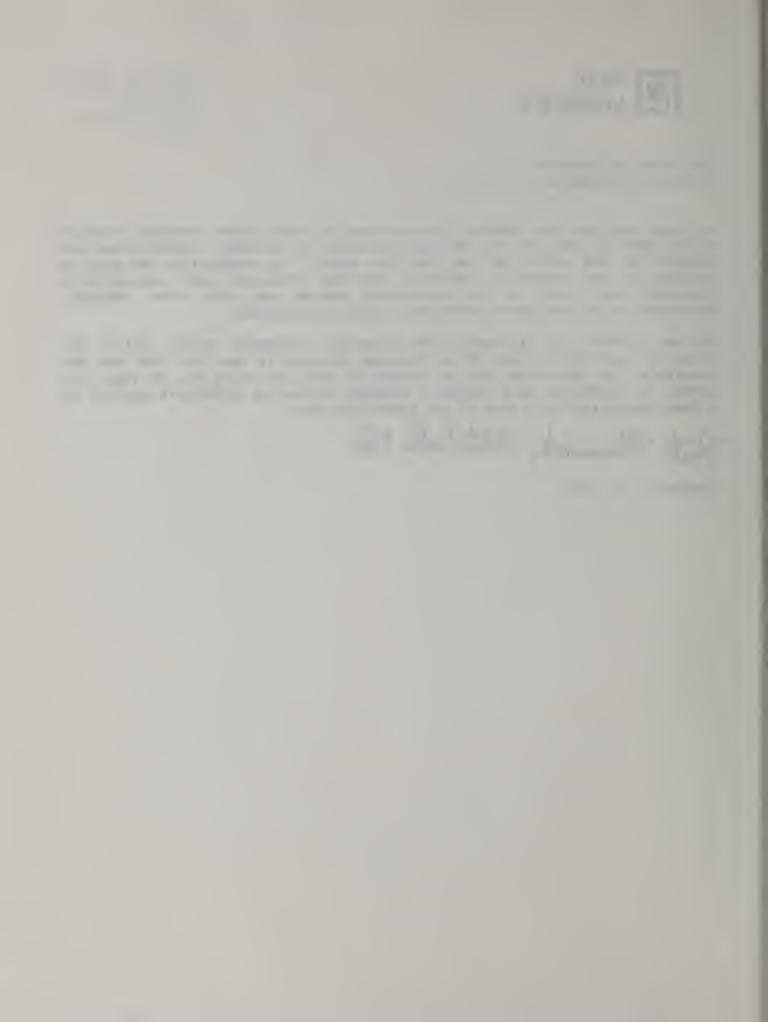
The Board of Directors
South Essex Sewerage District:

Peat, Marwick, Witchell & Co.

We have examined the combined balance sheet of South Essex Sewerage District as of June 30, 1986 and the related statements of revenues, expenditures and changes in fund equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of South Essex Sewerage District at June 30, 1986 and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceeding year.

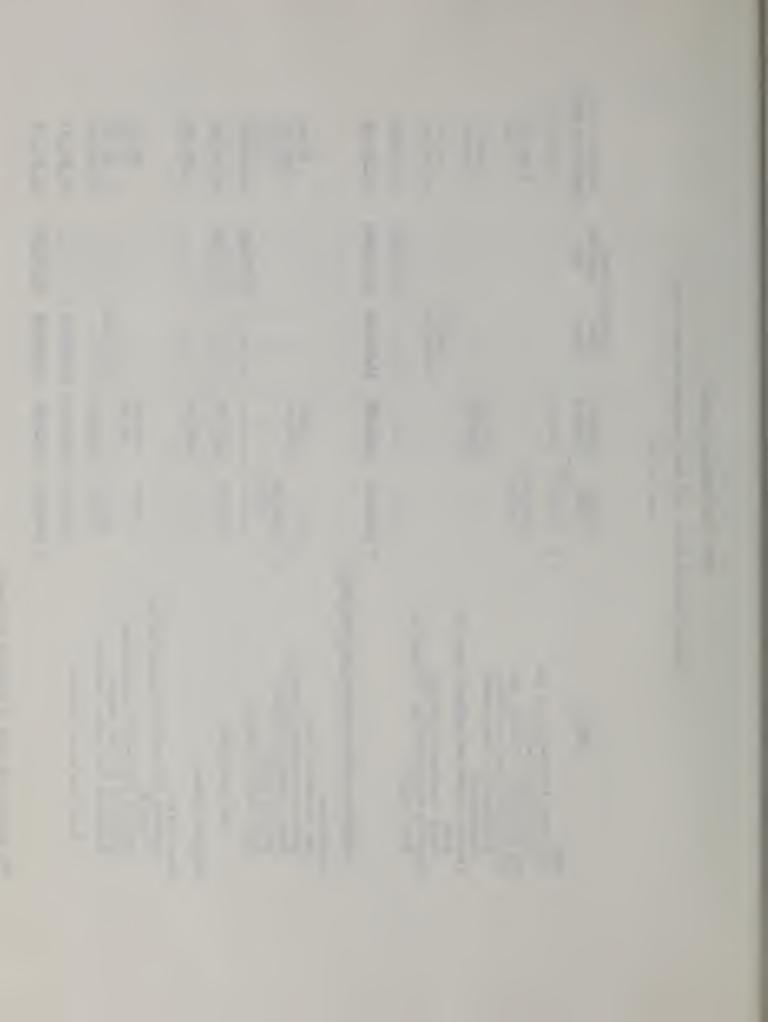
September 12, 1986



Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1986

General Capital Fixed Long-term Combined Total Fund Projects Assets Debt (Memorandum only)	\$ 793,097 \$ 221,459 1,014,556	1,049,097	- 1,246,239 1,246,239 - 3,058,190 3,058,190	- 244,093 - 244,093 - 56,976,393 - 56,976,393	- 10,740,000 10,740,000	\$ 1.871,154 4,525,888 57,220,486 10,740,000 Z4,357,528	75	28,960 (1) 117 - 10,740,000 10,740,000	533,659 4,656,960 - 10,740,000 15,930,619	3,058,190	351,541 $387,105$ $738,646$ - $48,705$ $67,220,486$ - $67,220,486$	1,337,495 (3,189,262) 57,220,486 - 55,368,719	
Assets	Cash	Short-term investments, at cost (approximates market)  Due from Capital Projects Fund		Land Waste treatment facilities Amount to be provided for retirement of	bonds payable		Liabilities, Deferred Revenue and Fund Equity	Liabilities: Due to General Fund Short-term borrowings (note 4) Member assessment refunds Warrants payable Bonds payable (note 5)	Total liabilities	Deferred revenue	Fund equity: Reserved for continuing appropriations (note 8) Reserved for specific expenditures Investment in fixed assets Unreserved fund equity (deficit)	Total fund equity (deficit)	



# Statement of Revenues, Expenditures, Transfers and Changes in Fund Equity

# General Fund

# Year ended June 30, 1986

	Original <u>Budget</u>	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments	\$ 9,451,884	8,357,655	(1,094,229)
Interest	-	216,477	216,477
Septage receipts Total revenues	9,451,884	$\frac{38,501}{8,612,633}$	$\frac{38,501}{(839,251)}$
Total Tevendes	2,431,004	0,012,033	(03),231)
Expenditures:			
General administration:			
Personnel costs	222,752	158,232	64,520
Expenses	$\frac{641,500}{864,252}$	735,957	$\frac{(94,457)}{(29,937)}$
			(29,937)
Engineering:			
Personnel costs	354,201	283,386	70,815
Expenses	324,232	43,710	280,522
	678,433	327,096	351,337
Operations:			
Personnel costs	802,887	605,410	197,477
Expenses	4,145,490	3,310,638	834,852
	4,948,377	3,916,048	1,032,329
Maintenance:			
Personnel costs	403,826	371,608	32,218
Expenses	360,070	281,435	78,635
	<u>763,896</u>	653,043	110,853
Construction debt service:			
Principal	1,040,000	1,040,000	_
Interest	814,394	814,394	-
	1,854,394	1,854,394	
In lieu of taxes	70,000	70,000	
Total expenditures	9,179,352	7,714,770	1,464,582
Excess of revenues over			
expenditures	\$ 272,532	897,863	625,331
	<u> </u>	07. <b>,</b> 005	
Transfer to Capital Projects Fund	v.	(419,000) 478,863	
Fund balance - June 30, 1985		858,632	
Fund balance - June 30, 1986		1,337,495	



# Statement of Revenues, Expenditures and Changes in Fund Equity

# Capital Projects Funds

Year ended June 30, 1986

	Phase	I Phase II	Phase II	I Phase IV	Total
Revenues:  Member assessments  Intergovernmental revenues  Interest earned	2,443 2,443	64,127 306,745 2,135 373,007	46,374 1,115,304 21,074 1,182,752	30,754 - 1,040 31,794	141,255 1,422,049 26,692 1,589,996
Expenditures: Interest expense	_	64,127	46,374	30,754	141,255
Capital outlay		•	1,869,336 1,915,710	•	2,917,117 3,058,372
Excess of expenditures over revenues	2,443	(719,607)	(732,958)	(18,254)	
Transfer from General Fund	2,443	391,000 (328,607)	<u>28,000</u> (704,958)	(18,254)	$\frac{419,000}{(1,049,376)}$
Fund balance - June 30, 1985	32,043	(1,257,863)	(349,478)	(564,588)	(2,139,886)
Fund balance, June 30, 1986 \$	34,486 V	(1,586,470)	(1,054,436)	(582,842)	(3,189,262)
See eccompanying notes to finan	oial sta	tomonta		48,705.	_



#### Notes to Financial Statements

June 30, 1986

## (1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

# (2) Summary of Significant Accounting Policies

The District follows generally accepted accounting principles for governments. Significant accounting policies followed by the District are as follows:

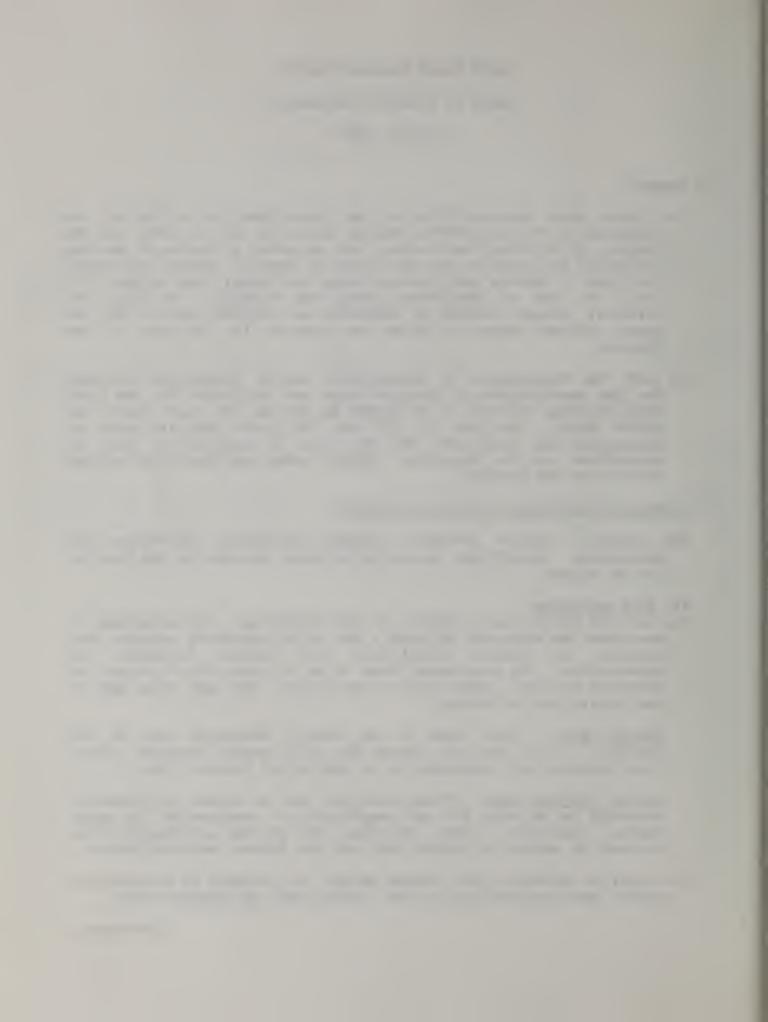
#### (a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

<u>Capital Projects Funds</u> - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

The District maintains two account groups for purposes of establishing control and accountability for its' fixed assets and long-term debt.



#### Notes to Financial Statements

## (b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred.

## (c) Intergovernmental Revenue

Estimated reimburseable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon written application to the respective governments for reimbursement of costs.

#### (d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not recognized as a cost of providing service and is not reflected in the financial statements of the District.

## (e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

#### (f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the district can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the district to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the district governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.



#### Notes to Financial Statements

## (3) Property, Plant and Equipment

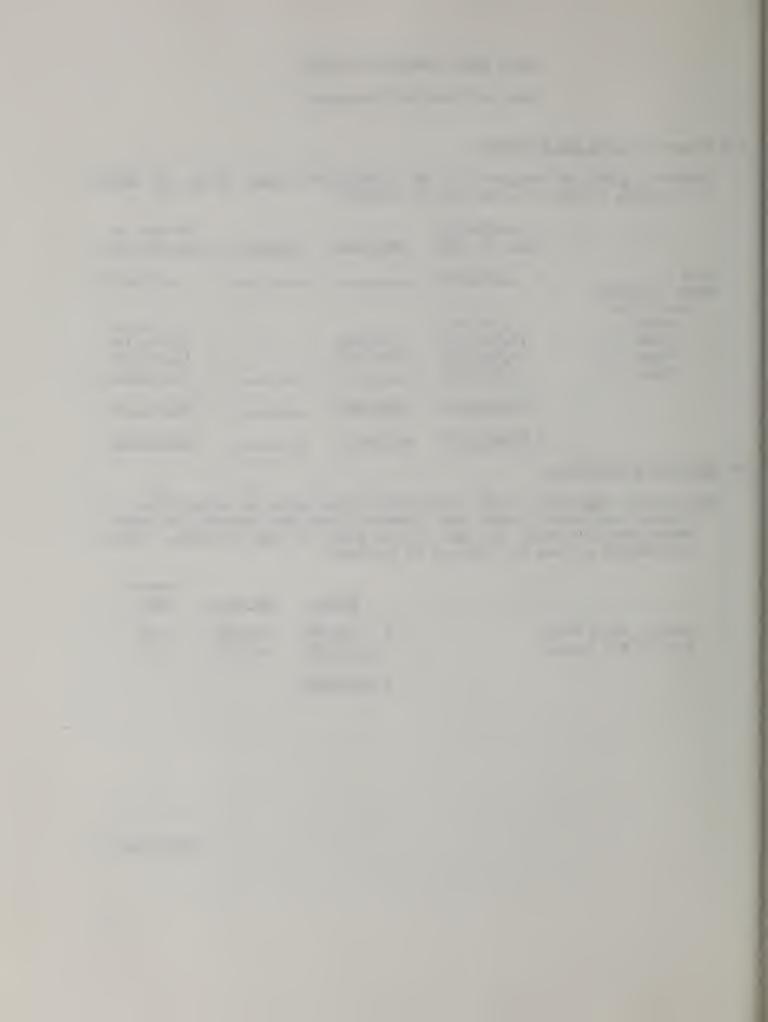
Property, plant and equipment of the fixed asset account group, by major category, at June 30, 1986, are as follows:

	Balance at June 30, 1985	Additions	Disposals	Balance at June 30, 1986
Land Water treatment facilities:	\$244,093			244,093
Phase I	11,525,426	-	_	11,525,426
Phase II	28,351,733	372,443	-	28,724,576
Phase III	9,136,673	1,348,904	-	10,485,577
Phase IV	6,241,214	-		6,241,214
	55,255,046	1,721,347		56,976,393
	\$ <u>55,499,139</u>	1,721,347		57,220,486

# (4) Short-term Borrowings

The District regularly issues construction loan notes in anticipation of Federal and state grants and proceeds from the issuance of bonds. Short-term borrowings are repaid with grant or bond proceeds. Notes outstanding at June 30, 1986 are as follows:

	Amount	Due date	Interest <u>rate</u>
Century North Shore Bank of New England	\$ 200,000 4,428,000	6/27/87 6/27/87	4.3% 4.7
	\$ <u>4,628,000</u>		



# Notes to Financial Statements

# (5) Bonds Payable

A summary of bonds payable at June 30, 1986 follows:

	Balance at June 30, 198	5 Payment	Balance at S June 30, 1986
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,230,000		1,075,000
Second Series A 6.875% serial bonds payable in annual install-ments of \$40,000 through 1992 and \$35,000 thereafter through 2004.	740,000	40,000	700,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2000.	880,000	55,000	825,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	80,000	10,000	70,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$22,686 through 1990, \$17,512 through 1991, \$17,114 through 1994, \$16,716 through 1995.	199,000	21,000	178,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2006.	2,420,000	110,000	2,310,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2000.	1,040,000	65,000	975,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.			
Fourth Series B 7.08% bonds payable in annual installments of \$191,064 through 1990, \$147,488 through 1991.	1,225,000	155,000	1,070,000
\$144,136 through 1994, \$140,784 through 1995.	1,676,000	`199,000	1,477,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991			
and 1992.	1,230,000	70,000	1,160,000
			(Continued)



#### Notes to Financial Statements

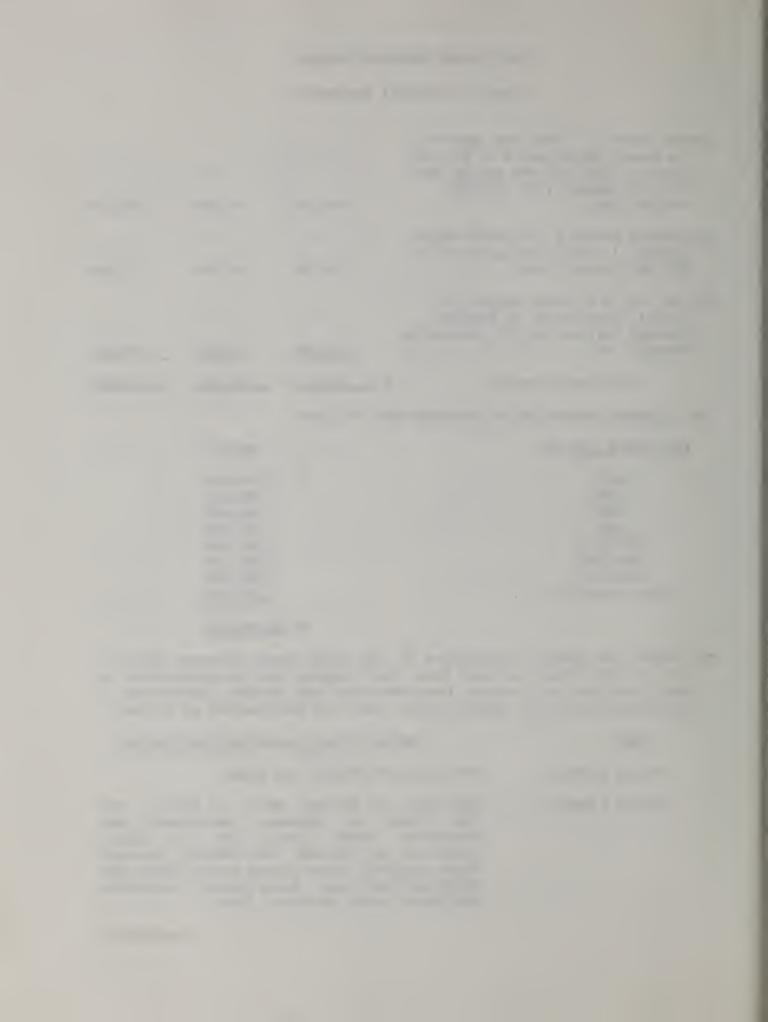
Second Series C 7.08% bonds payable in annual installments of \$71,250 through 1990, \$55,000 during 1991, \$53,750 through 1994, \$52,500 during 1995.	625,000	65,000	560,000
Marblehead Series 4.25% serial bonds payable in annual installments of \$50,000 through 1986.	100,000	50,000	50,000
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1987 and \$40,000 thereafter through 1992	335,000	45,000	290,000
Total bonds payable	\$ 11,780,000	1,040,000	10,740,000

The aggregate maturities of long-term debt follows:

Year ended June 30:	Amount
1987 1988	\$ 1,040,000 990,000
1989	985,000
1990	985,000
1991–1995	3,820,000
1996-2000	1,660,000
2001–2005	1,040,000
2006/thereafter	220,000
	\$ 10,740,000

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

Bond	Member cities, towns and institutions
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).



#### Notes to Financial Statements

Series C Bonds

The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).

Marblehead Series and Act of 1972 Bonds

The Town of Marblehead.

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1986, the District was authorized to issue \$22,200,000 in connection with its construction projects.

## (6) Pension Plan

The District's employees participate in the City of Salem Contributory Retirement system. The system is subject to the provisions of Chapter 32 of the Massachusetts General Laws. Annual contributions to the plan are determined by the Retirement Board of the system and certified by the Commonwealth of Massachusetts. Pension costs for the year ended June 30, 1986 amounted to \$201,000 and were charged to general fund operating expense.

# (7) Litigation

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exists. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of clean up. The potential amount of clean-up costs and the District's liability, if any, is not determinable at this time.



## Notes to Financial Statements

# (8) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1986 are being carried forward to subsequent years as follows:

# Maintenance and Operations:

Pickup truck Bronco vehicle Effluent water pump Robbins-Myers Mazorators Boat (monitoring, etc.) Polymer Pumps Standby transformer Tank repair Redwood flights Influent Station repairs Annual report Model 303RAA spectrophometer Evaluation of Peabody/Salem flow OBG Operations, Inc. (operations and maintenance study)	1	11,000 13,000 1,300 24,000 30,000 8,000 28,331 30,000 4,000 7,500 2,000 28,000 50,310
Construction Projects:		
Tighe & Bond, Inc. Odor control & HVAC evaluation Camp, Dresser & McKee, Inc.	15 19	33,920 58,285 94,900 37,105

\$ 738,646



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KPMG Peat Marwick

Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements

June 30, 1987

(With Accountants' Report Thereon)



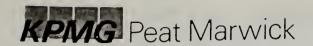
## General Purpose Financial Statements

# Year Ended June 30, 1987

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## AUDITORS' REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

The Board of Directors
South Essex Sewerage District:

We have examined the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1987 as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The District is currently a defendant in a lawsuit as described in Note 9. The ultimate outcome of this lawsuit is not presently determinable and no provision has been made in the financial statements for the effect, if any, of such litigation.

In our opinion, subject to the effects on the general purpose financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the general purpose financial statements referred to above, present fairly the financial position of South Essex Sewerage District at June 30, 1987, and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 4, 1987



# Statement of Revenues, Expenditures and Changes in Fund Equity

## General Fund

# Year ended June 30, 1987

	Original <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variances</u>
venues:	4 0 570 005	0 121 016	(1 //0 070)
Assessments	\$ 9,579,895	8,131,816	(1,448,079)
Interest	-	234,518	234,518
Septage receipts		18,350	18,350
Total revenues	9,579,895	8,384,684	(1,195,211)
Ependitures:			
General administration:			
Personnel costs	235,669	136,027	99,642
Expenses	842,500	840,851	1,649
	1,078,169	976,878	101,291
Engineering:			
Personnel costs	379,862	325,498	54,364
Expenses	362,460	61,619	300,841
an pended	742,322	387,117	355,205
Operations:			
Personnel costs	847,416	650,179	197,237
Expenses	3,973,650	3,520,518	453,132
	4,821,066	4,170,697	650,369
Maintenance:			
Personnel costs	430,932	377,530	53,402
Expenses	437,120	340,021	97,099
Likpenses	868,052	$\frac{-340,021}{-717,551}$	150,501
line .	000;032		
Construction debt service:			
Principal	1,040,000	1,040,000	-
Interest	960,286	_740,105	220,181
1	2,000,286	1,780,105	220,181
In lieu of taxes	70,000	70,000	
Total expenditures	9,579,895	8,102,348	1,477,547
Excess of revenues over			
expenditures	<del></del>	282,336	282,336
ansfer to capital projects fund		(216,138) 66,198	
and balance - June 30, 1986		1,337,495	
ind balance - June 30, 1987		1,403,693	

e accompanying notes to general purpose financial statements.



# Statement of Revenues, Expenditures and Changes in Fund Equity

# Capital Projects Funds

Year ended June 30, 1987

	<u>Phase I</u>	Phase II	Phase III	Phase IV	Total
ues: tergovernmental revenue: terest earned	s \$ - 1,863 1,863	578,649  578,649	33,392 3,444 36,836	2,596 2,596	612,041 7,903 619,944
ditures: terest expense pital outlay		66,812 1,335,188 1,402,000	120,970 945,478 1,066,448	28,356 - 28,356	216,138 2,280,666 2,496,804
Excess of revenues over expenditures	1,863	(823,351)	(1,029,612)	(25,760)	(1,876,860)
fer from general funds		66,812	120,970	28,356	216,138
	1,863	(756,539)	(908,642)	2,596	(1,660,722)
balance (deficit) June 30, 1986	34,486	(1,586,470)	(1,054,436)	(582,842)	(3,189,262)
palance (deficit), ne 30, 1987	\$ <u>36,349</u>	(2,343,009)	(1,963,078)	<u>(580,246</u> )	(4,849,984)

ecompanying notes to general purpose financial statements.



## Notes to General Purpose Financial Statements

June 30, 1987

## (1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

# 2) Summary of Significant Accounting Policies

The District follows generally accepted accounting principles for governments. Significant accounting policies followed by the District are as follows:

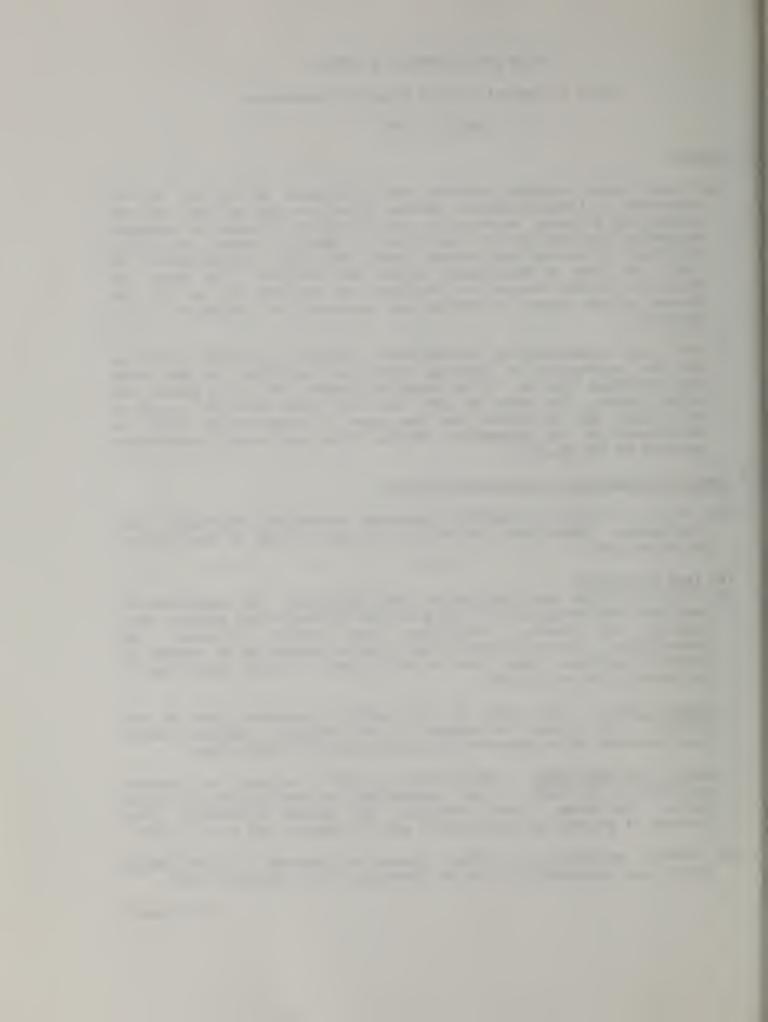
#### (a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

<u>Capital Projects Funds</u> - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

The District maintains two account groups for purposes of establishing control and accountability for its fixed assets and long-term debt.



#### Notes to General Purpose Financial Statements

## (b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred. Interest on long-term debt is recorded as an expenditure when due.

#### (c) Intergovernmental Revenue

Estimated reimbursable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon written application to the respective governments for reimbursement of costs.

## (d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District, because assets are recorded as expenditures when purchased.

## (e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

#### (f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and are billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the District can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.



Notes to General Purpose Financial Statements

## (3) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels within collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Muncipal Depository Trust ("MMDT").

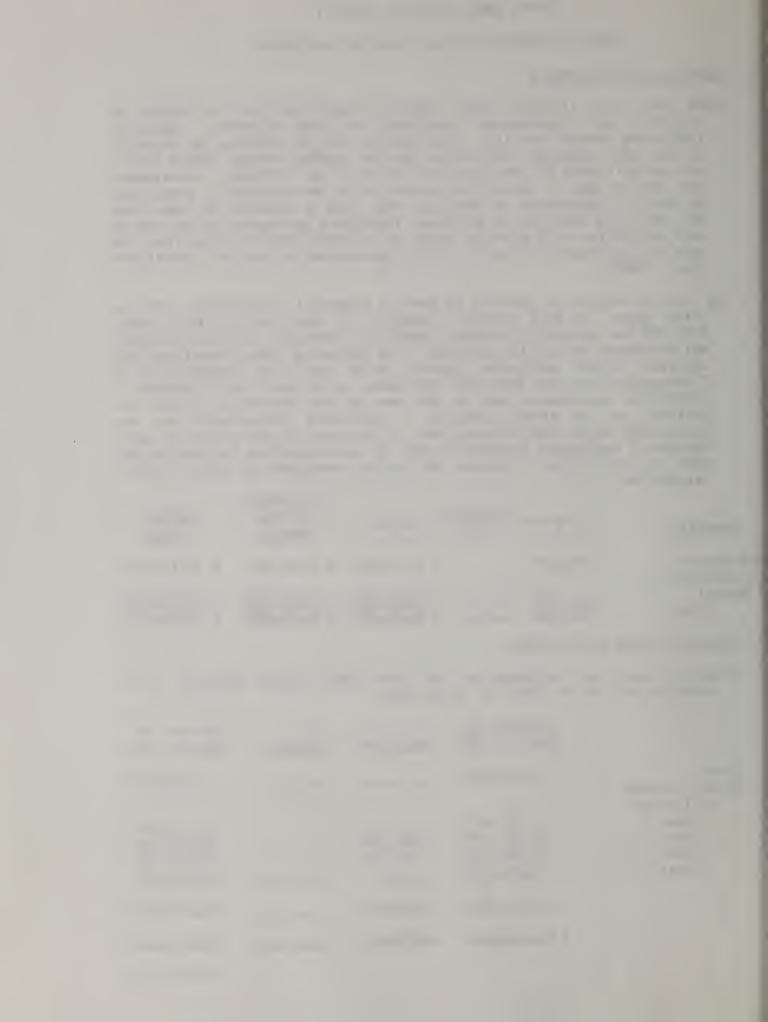
The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$2,516,684, \$204,280 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The following table summarizes the carrying value, estimated market value and risk characteristics ("categories") of the District investments as of year end. Category 1 represents investments held in the name of the District by either the District or its agent; Category 2 represents investments held by counterparties to the transactions in the name of the District; and, Category 3 represents investments held by counterparties but not in the name of the District. Amounts in pooled investment accounts are not categorized.

		Category			Market
Deposits	1	2_	3	Amount	_Value
Bank accounts Certificate of	\$ 204,280	-	\$ 1,312,404	\$ 1,516,684	\$ 1,516,684
Deposit Total	\$ <u>204,280</u>		$\frac{1,000,000}{2,312,404}$	$\frac{1,000,000}{2,516,684}$	$\frac{1,000,000}{2,516,684}$

#### (4) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group by major category at June 30, 1987, is as follows:

	Balance at June 30, 1986	Additions	Disposals	Balance at June 30, 1987
Land Water treatment facilities:	\$244,093			244,093
Phase I Phase II Phase III Phase IV	11,525,427 28,724,178 10,485,575 6,241,213	1,335,188 945,478	- - -	11,525,427 30,059,366 11,431,053 6,241,213
	56,976,393	2,280,666		59,257,059
	\$ <u>57,220,486</u>	2,280,666		59,501,152
				(Continued)



## Notes to General Purpose Financial Statements

## (5) Short-Term Borrowings

The District regularly issues construction loan notes in anticipation of Federal and state grants and proceeds from the issuance of bonds. Short-term borrowings are repaid with grant or bond proceeds. Notes outstanding at June 30, 1987 are as follows:

	Amount	Due date	Interest <u>rate</u>
Century North Shore Bank of Boston	\$ 200,000 5,086,000	6/23/88 6/23/88	4.43% 4.47%
	\$ <u>5,286,000</u>		

## (6) Bonds Payable

A summary of bonds payable at June 30, 1987 follows:

First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and	Balance at June 30, 1986	Payments	Balance at June 30, 1987
\$65,000 thereafter through 2002.	\$ 1,160,000	70,000	1,090,000
Second Series A 6.875% serial bonds payable in annual install-ments of \$40,000 through 1992 and \$35,000 thereafter through 2004.	700,000	40,000	660,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2000.	825,000	55,000	770,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	70,000	10,000	60,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$22,686 through 1990, \$17,512 through 1991, \$17,114 through 1994, \$16,716 through 1995.	178,000	21,000	157,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2006.	2,310,000	110,000	2,200,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2000.	975,000	65,000	910,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,070,000	155,000	915,000
and 1772.	1,070,000	100,000	(Continued)



## Notes to General Purpose Financial Statements

Fourth Series B 7.08% bonds payable in annual installments of \$191,064 through 1990, \$147,488 through 1991 \$144,136 through 1994, \$140,784	,		
through 1995.	1,477,000	199,000	1,278,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991			
and 1992.	1,075,000	155,000	920,000
Second Series C 7.08% bonds payable in annual installments of \$71,250 through 1990, \$55,000 during 1991, \$53,750 through 1994, \$52,500	570,000	<b>(5, 000</b>	4.05, 000
during 1995.	560,000	65,000	495,000
Marblehead Series 4.25% serial bonds payable in annual installments of \$50,000 through 1987.	50,000	50,000	-0-
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1987 and \$40,000 thereafter			
through 1992	290,000	45,000	245,000
Total bonds payable	\$ 10,740,000	1,040,000	9,700,000

The aggregate maturities of long-term debt are as follows:

Year ended June 30:	Amount
1988 1989 1990 1991-1995 1996-2000 2001-2005 2006/thereafter	\$ 990,000 985,000 985,000 3,820,000 1,660,000 1,040,000 220,000
	\$ 9,700,000

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:



#### Notes to General Purpose Financial Statements

Bond	Member Cities, Towns and Institutions
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).
Marblahand Sarias and	

Marblehead Series and Act of 1972 Bonds

The Town of Marblehead.

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1987, the District was authorized to issue \$22,200,000 in connection with its construction projects.

#### (7) Pension Plan

The District's employees participate in the City of Salem Contributory Retirement System. The System is subject to the provisions of Chapter 32 of the Massachusetts General Laws. Annual contributions to the plan are determined by the Retirement Board of the System and certified by the Commonwealth of Massachusetts. Pension costs for the year ended June 30, 1987 amounted to \$307,905 and were charged to general fund operating expense.

## (8) Fund Deficits

The deficits in the fund equity of the capital projects funds will be eliminated through future Federal and state grants and/or bond issues.

#### (9) Litigation

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of clean up. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.



# Notes to General Purpose Financial Statements

# (10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1987 are being carried forward to subsequent years as follows:

# Maintenance and Operations:

Pickup Truck	\$	11,000
Robbing-Myers Mazorators		11,312
Boat (monitoring, etc.)		30,000
Polymer Pumps		8,000
Standby Transformer		28,331
Tank Repair		27,589
Annual Report		2,000
Model 303RAA spectrophometer		28,000
Evaluation Peabody/Salem flow	_	18,641

\$ 164,873



KPMG Peat Marwick

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Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements and Supplementary Schedule

Year ended June 30, 1988

(With Independent Auditors' Report Thereon)



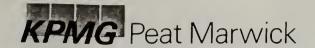
# General Purpose Financial Statements and Supplementary Schedule

Year Ended June 30, 1988

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Certified Public Accountants

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Essex Sewerage District:

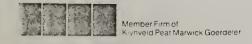
We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1988, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions; issued by the U.S. General Accounting office. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

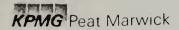
As more fully described in note 8 to the financial statements, the District does not provide for pension costs in accordance with generally accepted accounting principles.

The District is currently a defendant in a lawsuit as described in note 10. The ultimate outcome of this lawsuit is not presently determinable and no provision has been made in the financial statements for the effect, if any, of such litigation.

In our opinion, except for the effects of such adjustments, if any, as might have been required had the District provided for pension costs in accordance with generally accepted accounting principles and had the outcome of the uncertainty discussed in the preceding paragraph been known, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1988, and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles.





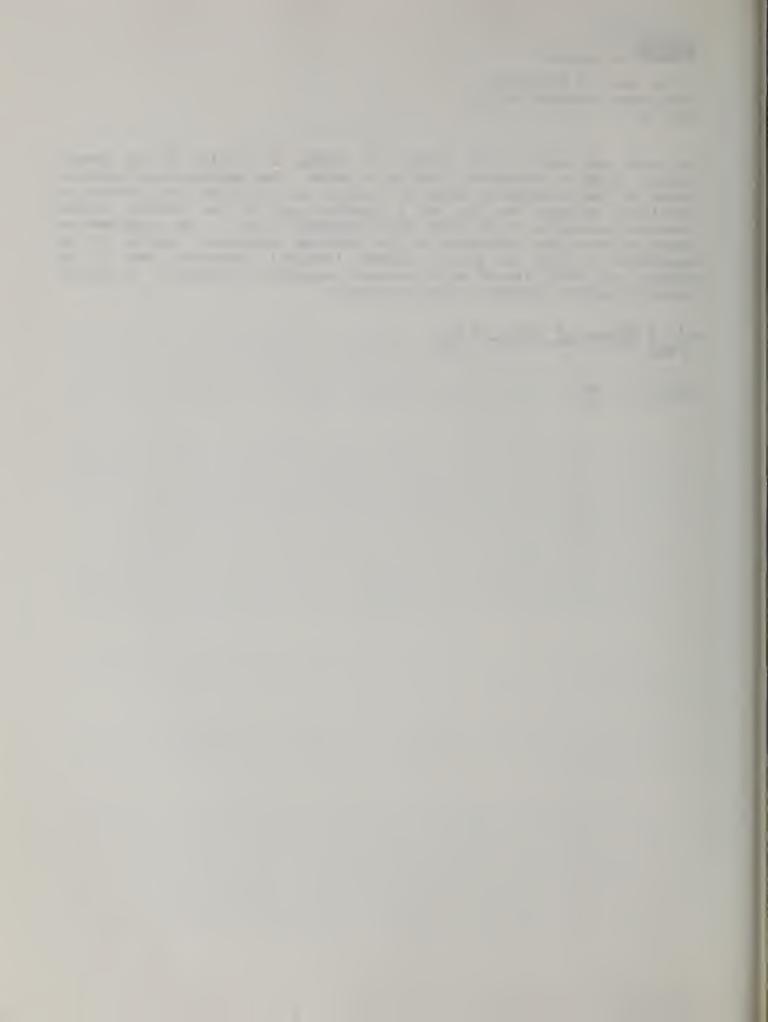


To the Board of Directors South Essex Sewerage District Page Two

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedules have been subjected to the auditing procedures applied in our engagement to audit the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

- Peat Manch Main & Ces

August 26, 1988



#### Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1988

	Gove	rnmental			
	Fun	d Types	Accoun	t Groups	
	General	Capital	Fixed	Long-Term	Total
Assets	Fund	Projects	Assets	Debt	(Memorandum only)
Cash	\$ 2,076,743	1,083,635	-	-	3,160,378
Accounts receivable-septage	6,359	-	-	-	6,359
Grant expenditures receivable:					
Submitted for reimbursement	-	832,285	-	-	832,285
Unsubmitted	-	4,276,673	-	-	4,276,673
Property, plant and equipment (note 5):					
Land	-	-	244,093	-	244,093
Waste treatment facilities	-	-	63,996,953	-	63,996,953
Amount to be provided for retirement of					
bonds payable				8,738,446	8,738,446
Total assets	\$ 2.083.102	6,192,593	64.241.046	8.738.446	81,255,187
Liabilities and Fund Equity					
Liabilities:					
Chemical reimbursement refund	186,561	-	-	-	186,561
Short-term borrowings (note 6)	-	9,314,000	-	-	9,314,000
Member assessment refunds	341,015	-	-	-	341,015
Accrued liability:					
Vacation	-	-	-	28,446	28,446
Legal	20,858	-	-	-	20,858
Warrants payable	1,862	-	-	-	1,862
Bonds payable (note 7)	-	-	-	8,710,000	8,710,000
Deferred revenue		4,276,673			4,276,673
Total liabilities	_550,296	13,590,673		8,738,446	22,879,415
Fund equity:					
Reserved for continuing appropriations					
(note 12)	416,773	-	-	-	416,773
Reserved for specific expenditures	-	54,547	-	-	54,547
Investment in fixed assets	-	-	64,241,046	-	64,241,046
Unreserved fund equity (deficit) (note 8)	1,116,033	(7,452,627)			(6,336,594)
Total fund equity (deficit)	1,532,806	(7,398,080)	64,241,046		58,375.772
	\$ 2.083.102	6.192.593	64.241.046	8.738.446	81,255,197

See accompanying notes to general purpose financial statements.



# Combined Statement of Revenues, Expenditures and Changes in Fund Equity - All Governmental Fund Types

# Year ended June 30, 1988

	Governmental General Fund	Fund Types Capital Projects	Total (Memorandum only)
Revenue:			
Assessment Interest Septage Intergovernmental Total revenues	\$ 8,420,813 8 237,011 43,127 - 8,700,951	327,625 46,226 - 1,995,466 2,369,317	\$ 8,748,438 283,237 43,127 1,995,466 11,070,268
Evnandituras			
Expenditures: General administration:			
Personnel costs	165,393	_	165,393
Expenses	1,123,551 1,288,944	<del></del>	1,123,551 1,288,944
Engineering:			
Personnel costs	345,453	-	345,453
Expenses	99,627		99,627
	445,080	-	445,080
Operations:			(10.001
Personnel costs	649,904	-	649,904
Expenses	3,392,369 4,042,273		3,392,369 4,042,273
Maintenance:	4,042,273	_	4,042,273
Personnel costs	381,612	_	381,612
Expenses	299,947	_	299,947
	681,559		681,559
Construction debt service:			
Principal	990,000	-	990,000
Interest - long-term	666,877	-	666,877
Interest - short-term		327,625	327,625
	1,656,877	327,625	1,984,502
In lieu of taxes	70,000	_	70,000
Capital outlay	-	4,976,893	4,976,893
Total expenditures	8,184,733	4,976,893 5,304,518	13,489,251
Excess (deficiency) of			
revenues over expenditures	516,218	(2,935,201)	(2,418,983)
Other financing sources (uses): Operating transfer in (out)	(387,105)	387,105	
Excess (deficiency) of			
revenues and other financing sources over expenditures	129,113	(2,548,096)	(2,418,983)
Fund equity (deficit), beginning of year	1,403,693	(4,849,984)	(3,446,291)
Fund equity (deficit), end of year	\$ <u>1,532,806</u>	<u>(7,398,080</u> )	(5,865,274)
	· · · ·		

See accompanying notes to general purpose financial statements.



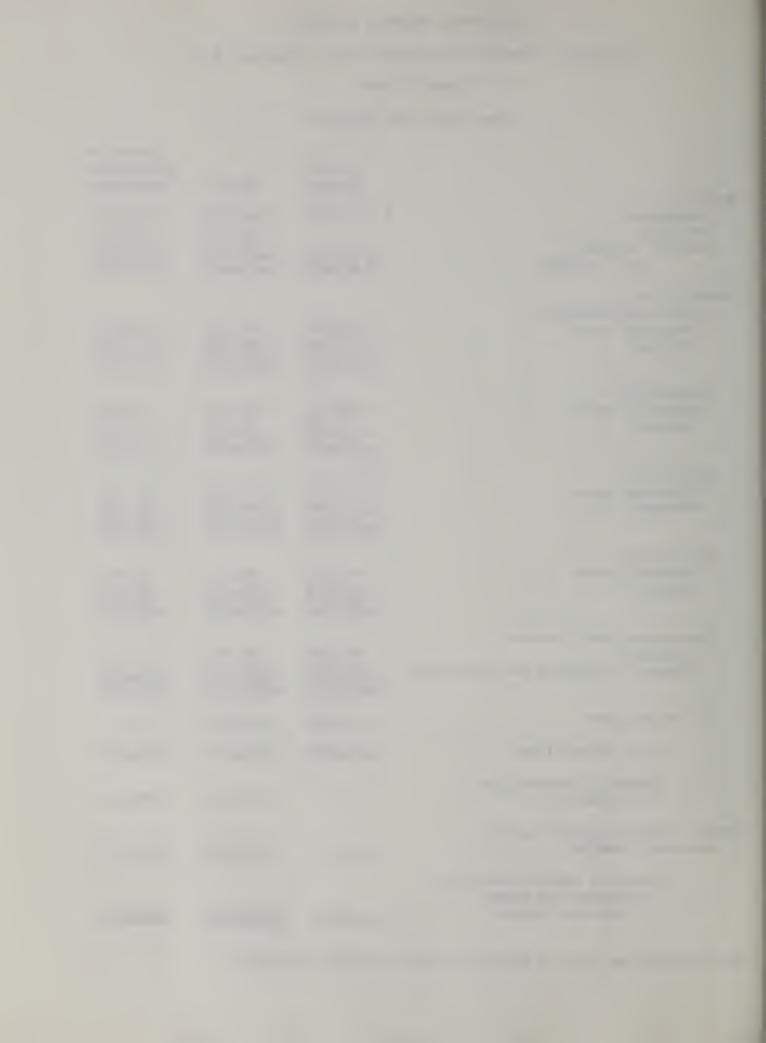
# Statement of Revenues and Expenditures - Budgetary Basis

# General Fund

Year ended June 30, 1988

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:		<del></del>	
Assessments	\$ 9,130,030	8,748,438	(381,592)
Interest	-	237,011	237,011
Septage receipts		36,767	36,767
Total revenues	9,130,030	9,022,216	(107,814)
Expenditures:			
General administration:	0(0,000	165 202	102 002
Personnel costs	269,296	165,393	103,903
Expenses	913,500	1,281,098	(367,598)
	1,182,796	1,446,491	(263,695)
Engineering:			
Personnel costs	380,613	345,453	35,160
Expenses	57,950	75,427	(17,477)
	438,563	420,880	17,683
Operations:			
Personnel costs	697,471	649,904	47,567
Expenses	3,704,500	3,489,869	_214,631
	4,401,971	4,139,773	262,198
Maintenance:			
Personnel costs	453,547	381,612	71,935
Expenses	436,275	299,956	136,319
	889,822	681,568	208,254
Construction debt service:			
Principal	990,000	990,000	_
Interest - long-term and short-term	1,156,878	994,502	162,376
· ·	2,146,878	1,984,502	162,376
In lieu of taxes	70,000	70,000	
Total expenditures	9,130,030	8,743,214	_386,816
Excess of revenues over		272 202	0.70 000
expenditures		279,002	279,002
Other financing sources (uses):			
Operating transfer		(387,105)	(387,105)
Excess of expenditures over revenues and other			
financing sources	\$	(108,103)	<u>(108,103</u> )

See accompanying notes to general purpose financial statements.



#### Notes to General Purpose Financial Statements

June 30, 1988

## (1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

# (2) Summary of Significant Accounting Policies

The District follows generally accepted accounting principles for governments. Significant accounting policies followed by the District are as follows:

#### (a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

<u>Capital Projects Funds</u> - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

Fixed Assets Account Group Funds - These funds are used to account for general fixed assets which are capitalized for financial statement purposes.

<u>Account Group</u> - The general long-term obligations account group is used to establish control and accountability for general long-term obligations of the District.



# Notes to General Purpose Financial Statements

The District maintains two account groups for purposes of establishing control and accountability for its fixed assets and long-term debt.

#### (b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred. Interest on long-term debt is recorded as an expenditure when due.

#### (c) Intergovernmental Revenue

Estimated reimbursable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon written application to the respective governments for reimbursement of costs.

#### (d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased.

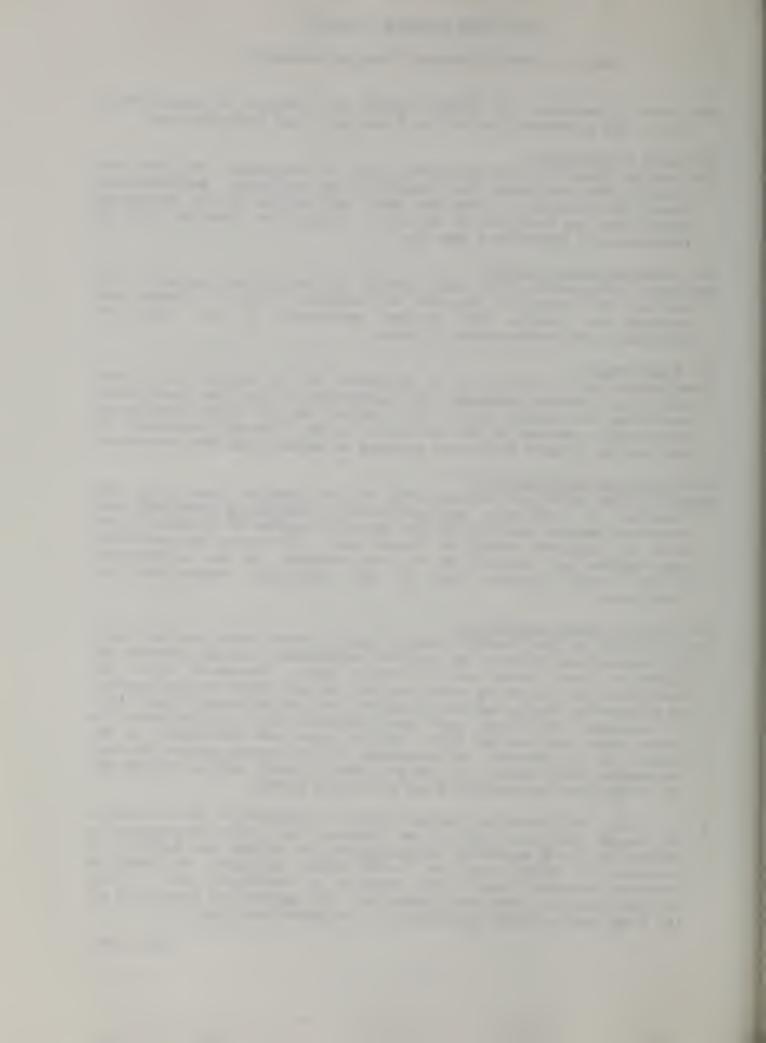
#### (e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

#### (f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and are billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the District can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.



#### Notes to General Purpose Financial Statements

#### (g) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable are recorded in the General Long-Term Obligations Account Group. The amount recorded is the unused days earned at the current rate of pay.

#### (h) Deferred Revenue

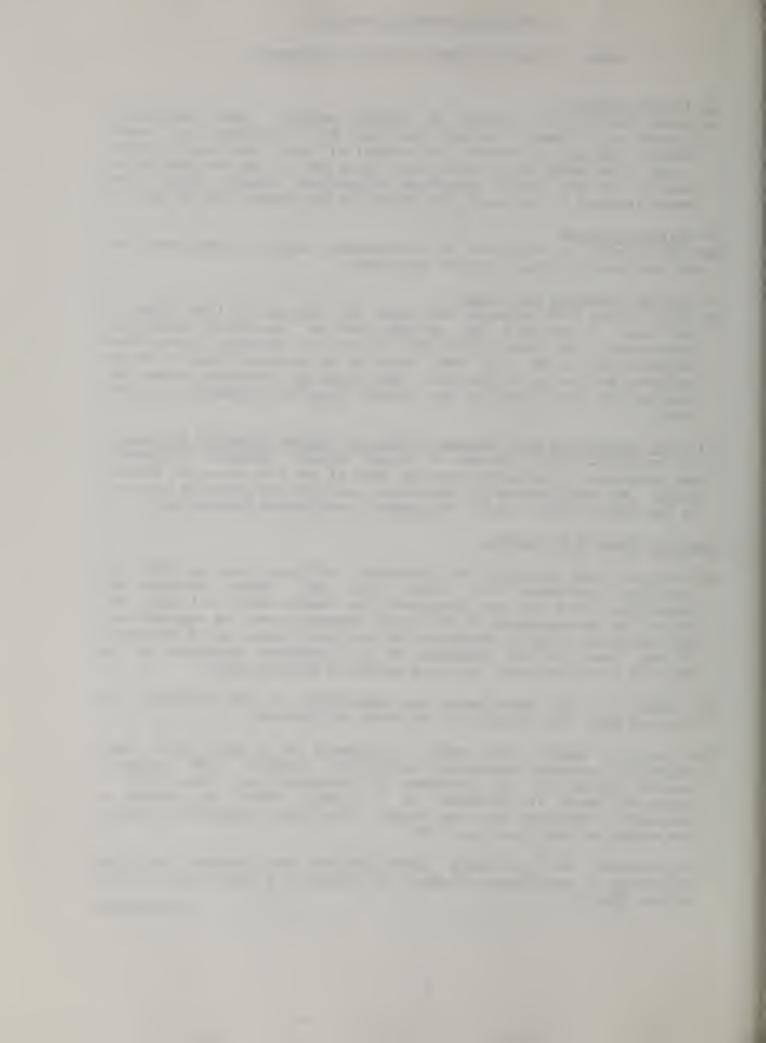
Deferred revenue is recognized for receivables, which are measurable but not available to finance current operations.

#### (i) Accrued Judgments and Claims

- Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the General Long-Term Obligation Account Group.
- (j) Total (Memorandum Only) Columns on General Purpose Financial Statements Total (memorandum only) columns on general purpose financial statements are presented to aggregate financial data of the fund types and account group. No consolidating or eliminating entries were made in arriving at the totals; thus, they do not present consolidated information.

# (3) Budgetary Basis of Accounting

- The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all transfers projected to be received by the District, including available surplus funds.
- The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.
- The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are that:
- (a) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP);



# Notes to General Purpose Financial Statements

(b) Certain activities and transactions are presented in separate funds (GAAP) rather than as a component of the General Fund (budget).

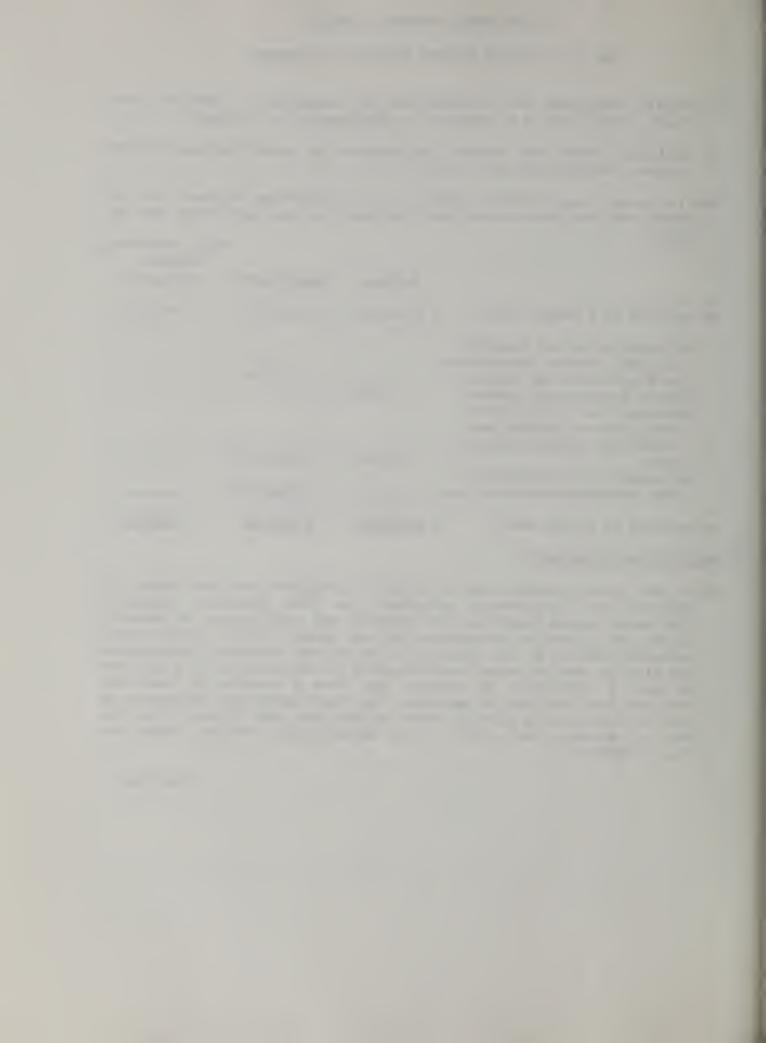
In addition, there are certain differences in classifications between revenues, expenditures and transfers.

The following reconciliation summarizes the differences between the the budget and GAAP basis accounting principles for the year ended June 30, 1988:

		Revenue	Expenditures	Other financing sources (uses) net
As	reported on a budget basis \$	9,022,216	8,743,214	(387,105)
		,	,,,,,	
	Reclassification of transfers for debt service expenditures to other financing sources Accrual for year-end revenue	- 6,360	21,044	
	Adjustment to reflect short-	0,500	_	
	term interest expense and revenue in capital project			
	fund	(327,625)	(327,625)	-
	Adjustment for encumbrances			
	and continuing appropriations	-	(251,900)	<del></del> .
As	reported on a GAAP basis \$	8,700,951	8,184,733	<u>(387,105</u> )

#### (4) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels within collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Muncipal Depository Trust ("MMDT").



#### Notes to General Purpose Financial Statements

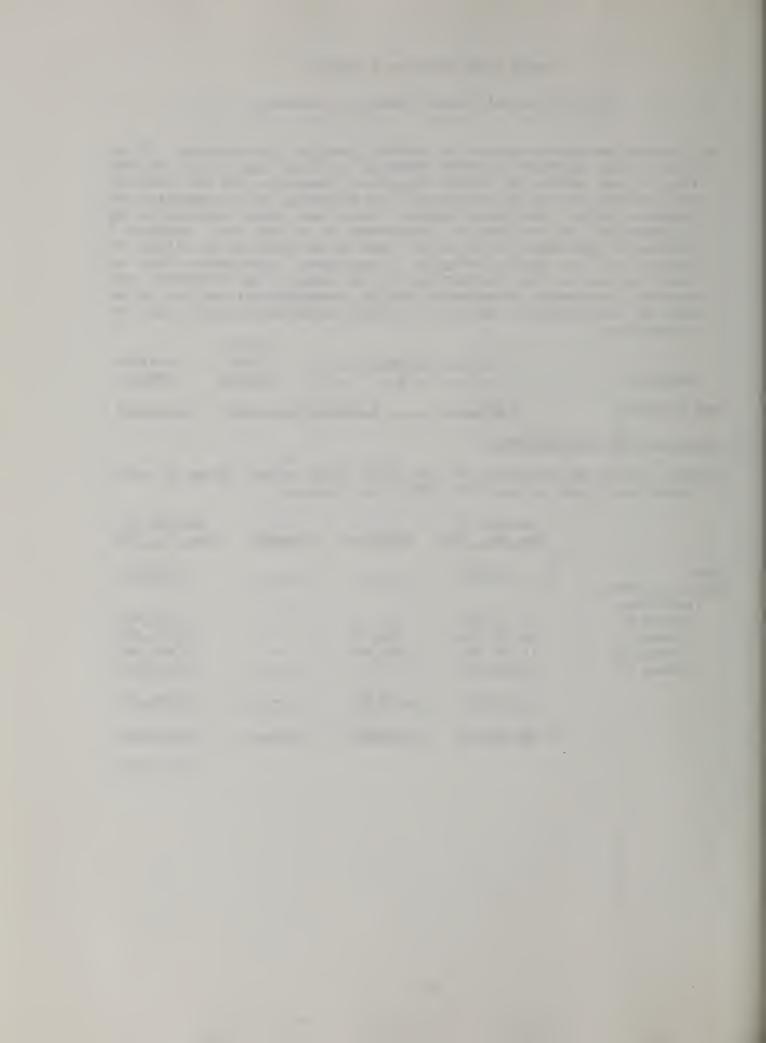
The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$3,160,078, \$264,523 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The following table summarizes the carrying value, estimated market value and risk characteristics ("categories") of the District investments as of year end. Category 1 represents investments held in the name of the District by either the District or its agent; Category 2 represents investments held by counterparties to the transactions in the name of the District; and, Category 3 represents investments held by counterparties but not in the name of the District. Amounts in pooled investment accounts are not categorized.

		Category		Total Bank	Carrying
Deposits	1		3	Balance	Amount
Bank accounts	\$ <u>264,523</u>	3,	462,753	3,727,276	3,160,378

#### (5) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1988, is as follows:

	Balance at June 30, 1987	Additions	Disposals	Balance at June 30, 1988
Land Water treatment facilities:	\$244,093			244,093
Phase I	11,525,427	-	-	11,525,427
Phase II	30,059,366	295,455		30,354,821
Phase III	11,431,053	4,444,439	-	15,875,492
Phase IV	6,241,213			6,241,213
	59,257,059	4,739,894		63,996,953
	\$ <u>59,501,152</u>	4,739,894		64,241,046
				(Continued)



#### Notes to General Purpose Financial Statements

# 6) Temporary Borrowings

- Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:
  - o Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS).
  - o Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of Federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were approximately \$327,675 and are accounted for in the General Fund. At June 30, 1988, the following notes were outstanding:

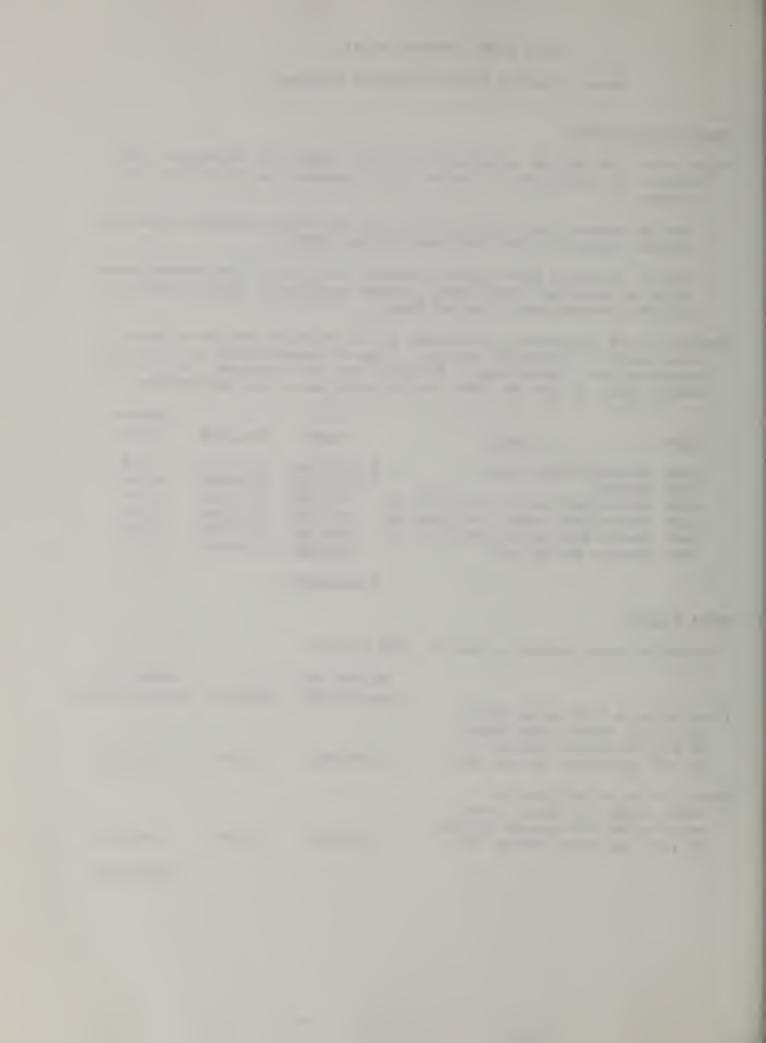
Type	Bank	Amount	<u>Due Date</u>	Interest <u>Rate</u>
SAAN SAAN SAAN SAAN SAAN SAAN	Arlington Trust Bank BayBank Boston Safe Deposit and Trus Boston Safe Deposit and Trus Boston Safe Deposit and Trus Eastern Savings Bank	co. 1,000,000	12/29/88 12/29/88 12/29/88 12/29/88 12/29/88 12/29/88	5.13% 4.97 4.86 5.00 5.00

\$ 9,314,000

#### 7) Bonds Payable

A summary of bonds payable at June 30, 1988 follows:

First Series A 5.5% serial bonds	Balance at June 30, 1987	Payments	Balance at June 30, 1988
payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,090,000	70,000	1,020,000
Second Series A 6.875% serial bonds payable in annual install-ments of \$40,000 through 1993 and			
\$35,000 thereafter through 2005.	660,000	40,000	620,000
			(Continued)



# Notes to General Purpose Financial Statements

	Balance at June 30, 1987	Payments	Balance at June 30, 1988
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	770,000	55,000	715,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	60,000	10,000	50,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1989, \$20,000 through 1994, \$15,000 through 1995.	157,000	21,000	136,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	2,200,000	110,000	2,090,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	.910,000	65,000	845,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1989 and \$150,000 in 1991 through 1993.	915,000	155,000	760,200
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1989, \$200,000 in 1990, \$140,000 in 1991, \$135,000 through 1995.	1,278,000	199,000	1,079,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	920,000	155,000	765,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1990, \$60,000 through 1995.	495,000	65,000	430,000
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1988 and \$40,000 thereafter through 1992	245,000	45,000	200,000
Total bonds payable	\$ 9,700,000	990,000	8,710,000
F4,40-1	· <u></u>	<u> </u>	(Continued)



Notes to General Purpose Financial Statements

The aggregate maturities of long-term debt are as follows:

Year ended June 30:	Amount
1989 1990	\$ 985,000 985,000
1991	915,000
1992 1993	905,000
Thereafter	4,015,000
	\$ <u>8,710,000</u>

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

Bond	Member Cities, Towns and Institutions
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1988, the District was authorized to issue \$22,200,000 in connection with its construction projects.



#### Notes to General Purpose Financial Statements

# (8) Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a Cost-Sharing Multiple-Employer Public Employee Retirement System. The City's Retirement System is a member of the Massachusetts Contributory System and is governed by M.G.L.c. 32 of the Massachusetts General Laws. Participating employers' share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the Retirement System for the year ended June 30, 1988 was \$1,515,635. The total payroll for the District was \$1,542,425.

The City of Salem, Massachusetts Retirement System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the Retirement System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the systems after January 1, 1979 are subject to a cap of \$30,000 on the level of compensation upon which their benefit is calculated.

Members of the system become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the Participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits. The accounting records of the Retirement System are maintained on a calendar year basis in accordance with the standards and procedures established by the Commissioner of the Public Employee Retirement Administration.



Notes to General Purpose Financial Statements

#### (b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure measure to the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The System does not make separate measurements and pension benefit obligation for individual employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1988 contribution represented 8.45 percent of total contributions required of all participating entities.

#### (c) Contribution Requirements and Contribution Made

The Retirement System Funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employees Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the Retirement System for 1988 of \$437,806 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$343,191 (22.6% of current covered payroll); employees contributed \$94,615 (6.2% of current covered payroll).

#### (d) Trend Information

Under generally accepted accounting principles, the District is required to reference historical trend information included in the financial reports of the System. However, the System does not provide such information in their annual financial statements.



Notes to General Purpose Financial Statements

#### (9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1988:

Capital projects:

Phase II Phase IV \$ (2,292,847) (4,567,149) (577,004)

\$ (7,437,000)

The deficits in these funds will be eliminated through future bond issues/Federal and state grants.

#### (10) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of clean up. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.

#### (11) Operating Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

	Transfers In (Out) Capital General Projects	
Purpose of operating transfer: To account for capital expenditure	\$ <u>(387,105</u> ) <u>387,105</u>	2
	\$ <u>(387,105</u> ) <u>387,105</u>	<u>į</u>
	(Continued	1)



Notes to General Purpose Financial Statements

#### (12) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1988 are being carried forward to subsequent years as follows:

Maintenance and Operations:			
Pickup Truck		\$	11,000
Robbing-Myers Mazorators			11,312
Boat (monitoring, etc.)			30,000
Polymer Pumps			8,000
Standby Transformer			28,331
Tank Repair			27,589
Annual Report			2,000
Evaluation Peabody/Salem flow			18,641
COD Analyzer			4,000
Graphite Furnace			28,000
FAX Machine			2,000
Station Wagon			16,000
Toxicity Testing and Chemical Analysis FY			10,600
Toxicity Testing and Chemical Analysis FY	89		72,000
Bioaccumulation Study Proposal FY 89			10,000
Industrial Sampling FY 89			36,000
Chemical Price Admustment			
Sodium hypochlorite			32,500
Polymer			5,000
Sodium hydroxide			60,000
Miscellaneous		_	3,800



#### Schedule of Cash Balances

June 30, 1988

Non-interest-bearing bank accounts: State Street Bank of New England Century Bank	\$ 1,454 149,538 10,000
Total non-interest-bearing bank accounts	160,992
Interest-bearing bank accounts:  Bank of New England  Bank of Boston  BayBank  Arlington Trust  State Street Bank and Trust Co.	2,066,443 38,917 420,798 54,544 418,384
Total interest-bearing bank accounts	2,999,086
Cash and checks on hand	300
Total cash balances as shown in general purpose financial statements	\$ <u>3,160,378</u>

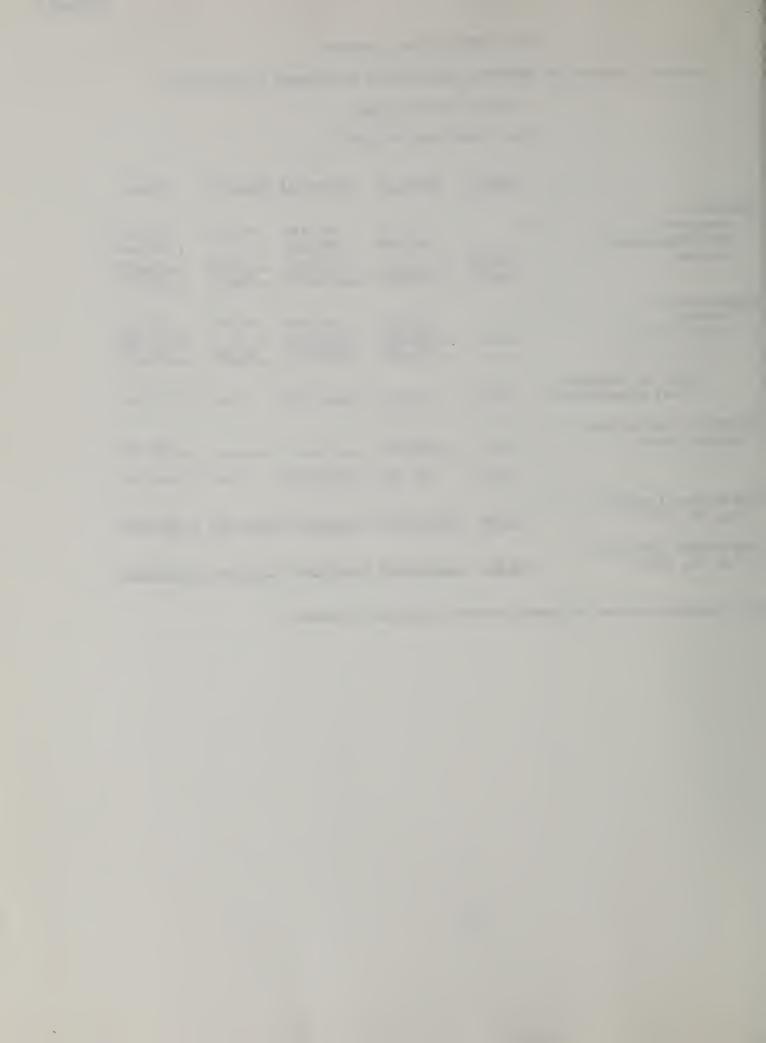


## Combining Statement of Revenues, Expenditures and Changes in Fund Equity Capital Projects Fund

Year ended June 30, 1988

	Phase I	Phase II	Phase III	Phase IV	Total
Revenues:					
Assessment	\$ -	115,172	185,635	26,818	327,625
Intergovernmental	-	95,449	1,900,017	-	1,995,466
Interest	2,570		40,414	3,242	46,226
	2,570	210,621	2,126,066	30,060	2,369,317
Expenditures:					
Interest	-	115,172	185,635	26,818	327,625
Capital outlay		432,392	4,544,501		4,976,893
		547,564	4,730,136	26,818	5,304,518
Excess of revenues over expenditures	2,570	(336,943)	(2,604,070)	3,242	(2,935,201)
Operating transfer from					
general funds	· <u>-</u>	387,105			387,105
V.	2,570	50,162	(2,604,070)	3,242	(2,548,096)
Fund balance (deficit)					
June 30, 1987	36,349	(2,343,009)	(1,963,078)	(580,246)	(4,849,984)
Fund balance (deficit), June 30, 1988	\$ 38.919	(2.292.847)	(4.567.148)	(577,004)	<u>(7,398,080</u> )

See accompanying notes to general purpose financial statements.



KPMG Peat Marwick

- OFFICE CONVIL

Certified Public Accountants

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#### SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements and Supplementary Schedule

Year ended June 30, 1989

(With Independent Auditors' Report Thereon)

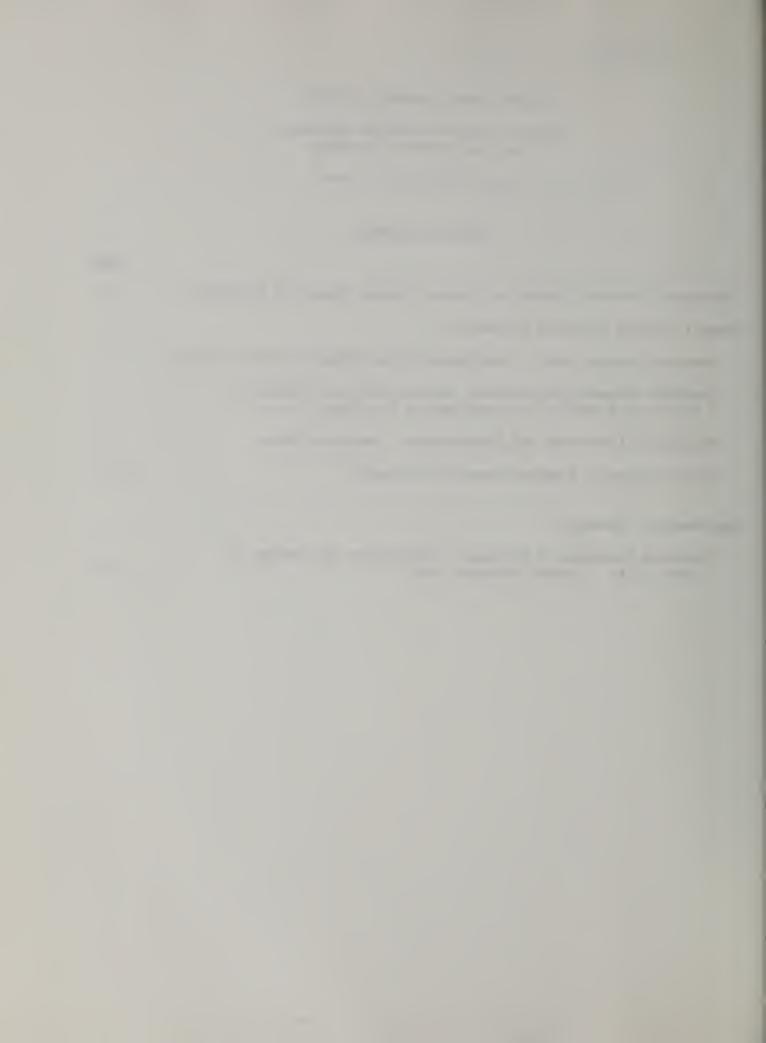


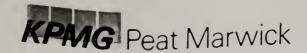
### General Purpose Financial Statements and Supplementary Schedule

Year Ended June 30, 1989

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General Purpose Financial Statements:	
Combined Balance Sheet - Governmental Fund Types and Account Groups	3
Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) - Governmental Fund Types	4
Statement of Revenues and Expenditures - Budgetary Basis	5
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Supplementary Schedule:	
Combining Statement of Revenues, Expenditures and Changes in Fund Equity - Capital Projects Fund	18





Certified Public Accountants

Control Maria

Telephone 617 723 7700 Telex 617 443 0082 PMMBOST Telecopier 617 723 6864

#### INDEPENDENT AUDITORS' REPORT

To the Board of Directors South Essex Sewerage District:

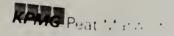
We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1989, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the <u>Standards for Audit of Governmental Organizations</u>, <u>Programs</u>, <u>Activities and Functions</u>, issued by the U.S. General Accounting Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District is currently a defendant in two lawsuits as described in note 10. The ultimate outcome of these lawsuits is not presently determinable and no provision has been made in the general purpose financial statements for the effects, if any, of such litigation.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1989, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.





To the Board of Directors South Essex Sewerage District Page Two

Post Maurel Min & Co.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

September 1, 1989

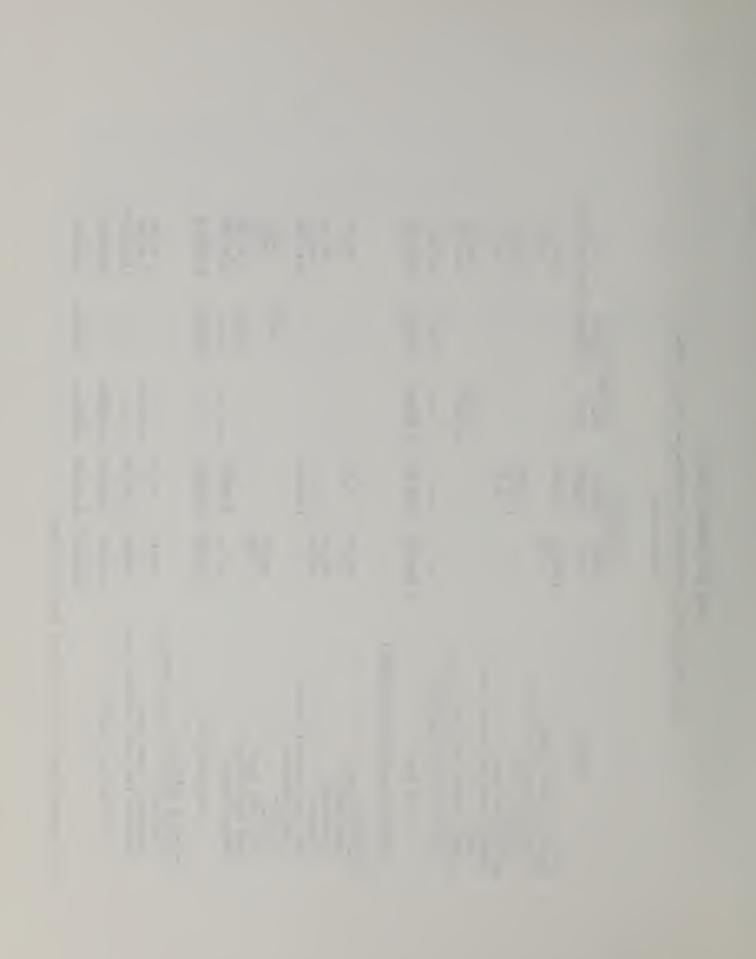


Combined Balance Sheet - Governmental Fund Types and Account Groups

June 30, 1989

	Memorandum only)	4,864,633	521,259 3,101,982 10,281	244,093 65,658,933 7,751,124	82,168,505	385,247 952,911 186,561 8,814,000 26,124 288,524 10,281 7,725,000 3,101,982 21,490,630 21,490,630 65,903,026 (5,593,918)	82,168,505
Account Groups	Long-Term Obligations	1 1	1 1 1	7,751,124	7,751,124	26,124 - 7,725,000 - - 7,751,124	7,751,124
Account	Fixed	1 1	1 1 1	244,093	65,903,026	65,903,026	65,203,026
Governmental Fund Types	Projects	1,874,506	521,259 3,101,982 10,281	1 1 1	5.508.028	61,711 - 8,814,000 - 3,101,982 11,977,693 (6,524,211) (6,469,665)	5,508,028
Gover	Fund	\$ 2,990,127 16,200	1 1 1	1 1 1	\$ 3,006,327	323,536 952,911 186,561 - 288,524 10,281 - 1,761,813 314,221 930,293 1,244,514	\$ 3,006,327
	<u>Assetts</u>	Cash Accounts receivable septage Reinburseable grant expenditures:	~ u	Land Waste treatment facilities Amount to be provided for retirement of general long-term obligations	Total assets	Liabilities and Fund Equity (Deficit)  Liabilities:     Warrants payable     Member refunds:     Assessments     Chemical     Short-term borrowings (note 6)     Accrued liabilities:     Vacation     Interest     Due to other funds     Bonds payable (note 7)     Deferred revenue      Total liabilities  Fund equity (deficit):     Reserved for continuing appropriations (note 10)     Investment in fixed assets     Unreserved fund equity (deficit)  Total fund equity (deficit):	

See accompanying notes to general purpose financial statements.

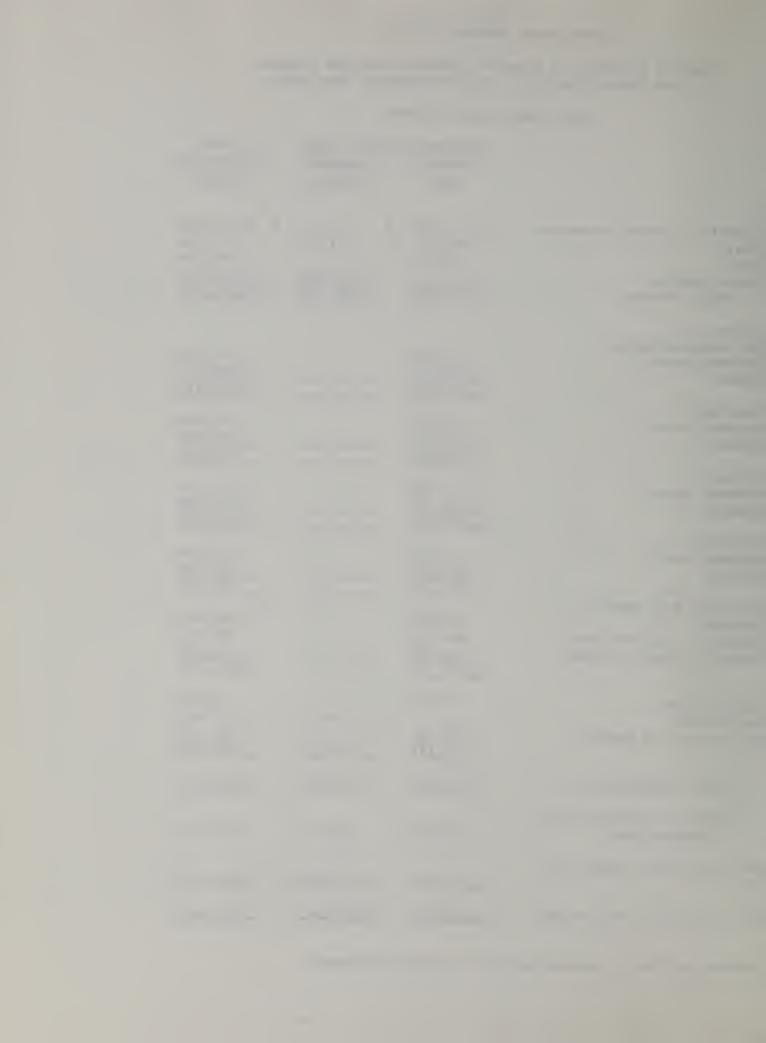


Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) - All Governmental Fund Types

Year ended June 30, 1989

	Governmenta	Total	
	General	Capital	(Memorandum
	<u>Fund</u>	Projects	only)
ie:	1 0 504 404	_	
sessments to district members		\$ -	\$ 8,534,486
erest	490,527	31,007	521,534
otage	128,796	2 024 471	128,796
tergovernmental	- 152 000	3,036,671	3,036,671
Total revenues	9,153,809	3,067,678	12,221,487
litures:			
neral administration:			
Personnel costs	196,859	_	196,859
Expenses	1,078,514	_	1,078,514
Inpenses	1,275,373		1,275,373
gineering:	2,273,373		1,2/3,3/3
Personnel costs	422,858	_	422,858
Expenses	102,800	_	102,800
	525,658		525,658
erations:			
Personnel costs	671,186	_	671,186
Expenses	3,666,328	_	3,666,328
the same of the sa	4,337,514	_	4,337,514
intenance:	<del></del>		
Personnel costs	417,149	-	417,149
Expenses	270,023	-	270,023
4	687,172	-	687,172
astruction debt service:			
Principal	985,000	-	985,000
Interest - long-term debt	594,912	-	594,912
Interest - short-term debt	545,285		545,285
	2,125,197		2,125,197
1:	70.000		70.000
lieu of taxes	70,000	2 120 262	70,000
pital outlay fund to district members	- /.01 107	2,139,263	2,139,263
Tund to district members	$\frac{421,187}{491,187}$	2,139,263	$\frac{421,187}{2,630,450}$
	491,107	2,139,203	2,030,430
Total expenditures	9,431,820	2,139,263	11,581,364
· ·			
Excess of revenues over			
expenditures	(288,292)	928,415	640,123
		•	
equity (deficit), beginning		(= 0=0 === :	(5.04=-=-
year	1,532,806	(7,398,080)	(5,865,274)
ib ()-Ei-ib)	d 1 0// 51/	(( )(0 ((5)	(5 205 151)
equity (deficit), end of year	\$ <u>1,244,514</u>	(6,469,665)	(5,225,151)

accompanying notes to general purpose financial statements.



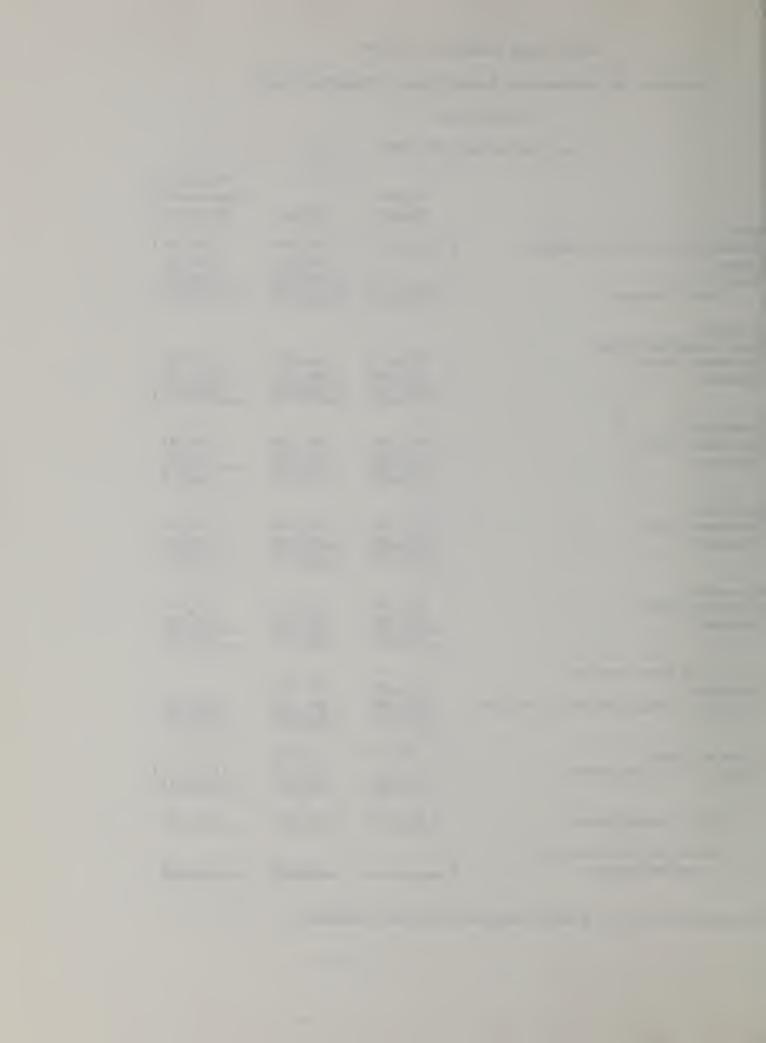
#### Statement of Revenues and Expenditures - Budgetary Basis

#### General Fund

Year ended June 30, 1989

nues:	Original Budget	<u>Actual</u>	Favorable (Unfavorable) Variances
ssessments to district members	\$ 9,363,332	8,534,486	(828,846)
iterest	Ψ 7,303,332 -	490,527	490,527
eptage		118,955	118,955
Total revenues	9,363,332	9,143,968	(219,364)
nditures:			
eneral administration:			
Personnel costs	295,437	196,859	98,578
Expenses	936,000	1,083,201	(147,201)
	1,231,437	1,280,060	(48,623)
ngineering:			
Personnel costs	452,739	422,858	29,881
Expenses	67,800	53,785	14,015
	520,539	476,643	43,896
perations:			
Personnel costs	725,479	671,186	54,293
Expenses	3,653,581	3,628,962	24,619
	4,379,060	4,300,148	78,912
aintenance:			
Personnel costs	486,026	417,149	68,877
Expenses	448,975	270,023	178,952
	935,001	687,172	247,829
onstruction debt service:			
Principal	985,000	985,000	-
Interest - long-term and short-term	1,242,295	841,392	400,903
	2,227,295	1,826,392	400,903
n lieu of taxes	70,000	70,000	
efunds to district members		421,187	(421, 187)
	70,000	491,187	(421,187)
Total expenditures	9,363,332	9,061,602	301,730
Excess of revenues over		,	
expenditures	\$	82,366	82,366

accompanying notes to general purpose financial statements.



#### Notes to General Purpose Financial Statements

June 30, 1989

#### General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

#### Summary of Significant Accounting Policies

#### (a) Basis of Presentation

The financial condition and results of operations of the District's funds are presented as of and for the year ended June 30, 1989. The accounting policies of the District conform with generally accepted accounting principles ("GAAP").

#### (b) Fund Accounting

The operations of the District are recorded in the following fund types and account groups:

#### • Governmental Fund Types

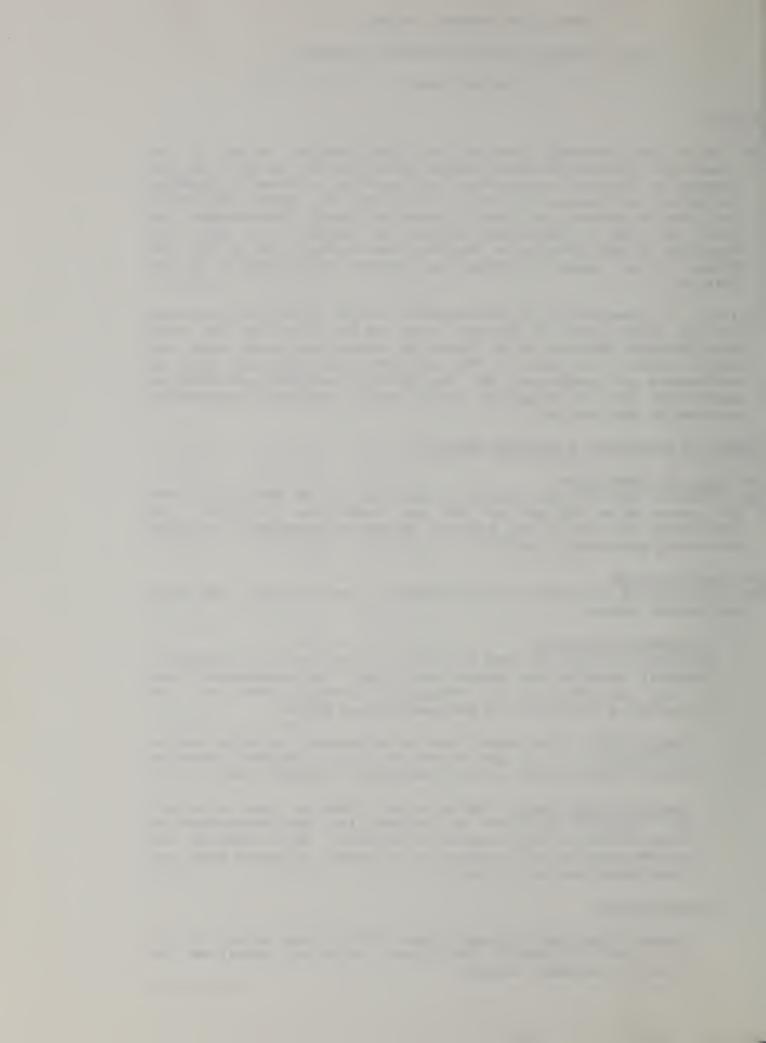
Governmental funds are used to account for the District's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

<u>Capital Project Funds</u> - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants.

#### • Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets which are capitalized for financial statement purposes.



Notes to General Purpose Financial Statements

General Long-term Obligations Account Group - This account group is used to account for all long-term obligations of the District except those accounted for in proprietary funds.

c) Basis of Accounting

- The modified accrual basis of accounting is followed by governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation leave, which is recorded in the general long-term obligations account group.
- In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.
- Assessments and septage income are recognized as revenue in the year for which they have been billed. Investment earnings are recorded as earned.

#### (d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations." Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities.

#### (f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements or related debt, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual



Notes to General Purpose Financial Statements

sewerage flow and other factors. At fiscal year end, estimated bills are adjusted for actual results. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility. Such costs are billed yearly.

A statewide tax limitation statute known as "Proposition 2-1/2" limits annual increases in total assessments to members by 2-1/2%. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

During 1989, the member communities voted to set up separate bank accounts for their assessment payments so that the interest earned on these payments would be specifically credited to their accounts. Such interest earned on member's accounts after the effective date totalled \$3,588 at June 30, 1989 and is included in unreserved fund equity.

#### (g) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable is recorded in the general long-term obligations account group. The amount recorded is the unused days earned at the current rate of pay.

#### (h) Deferred Revenue

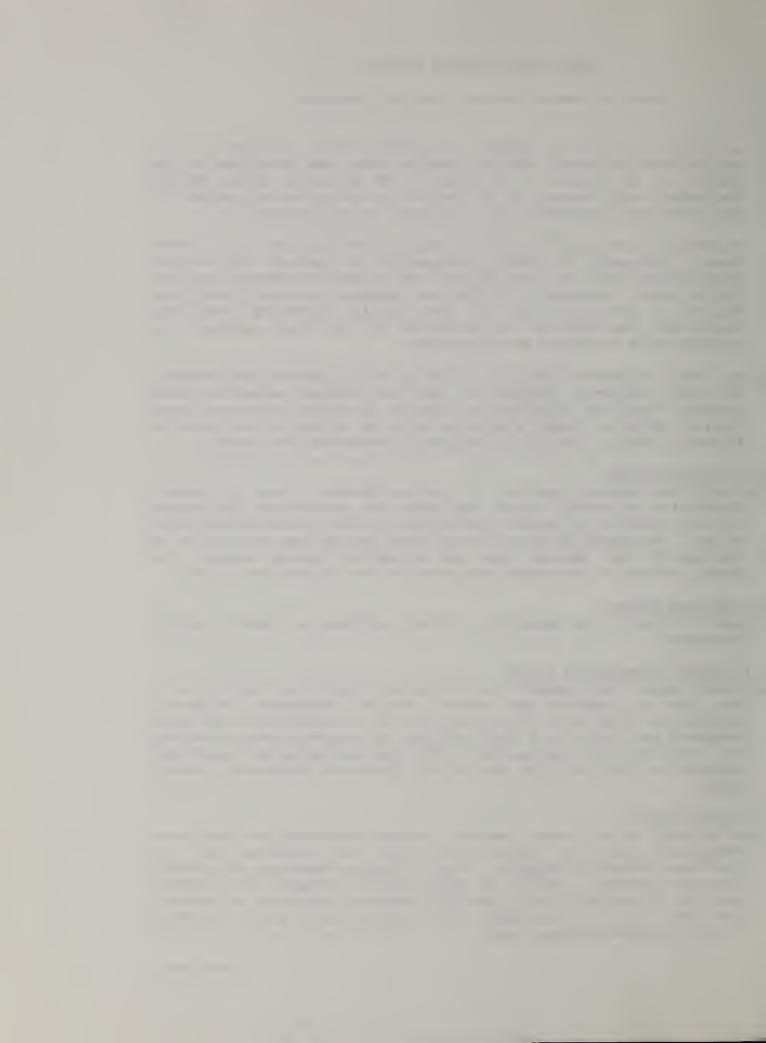
Revenue is deferred when measurable but not available to finance current operations.

#### (i) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the general long-term obligations account group.

#### (j) Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.



Notes to General Purpose Financial Statements

#### Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all other revenues and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

- The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis are that:
- (a) Continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP),
- (b) Certain revenues and expenditures are recorded on a cash basis (budget) as opposed to a modified accrual basis (GAAP).

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1989:

	Revenue	Expenditures
As reported on a budgetary basis	\$ 9,143,968	9,061,602
Accrued interest Adjustment for legal expense Accrual for septage revenue Adjustment for continuing appropriations	9,841	288,524 (20,858) - 102,552
As reported on a GAAP basis	\$ <u>9,153,809</u>	9,431,820

#### ) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels within collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than



#### Notes to General Purpose Financial Statements

one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$5,313,707, (carrying value \$4,864,633) \$272,655 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

#### Property, Plant and Equipment

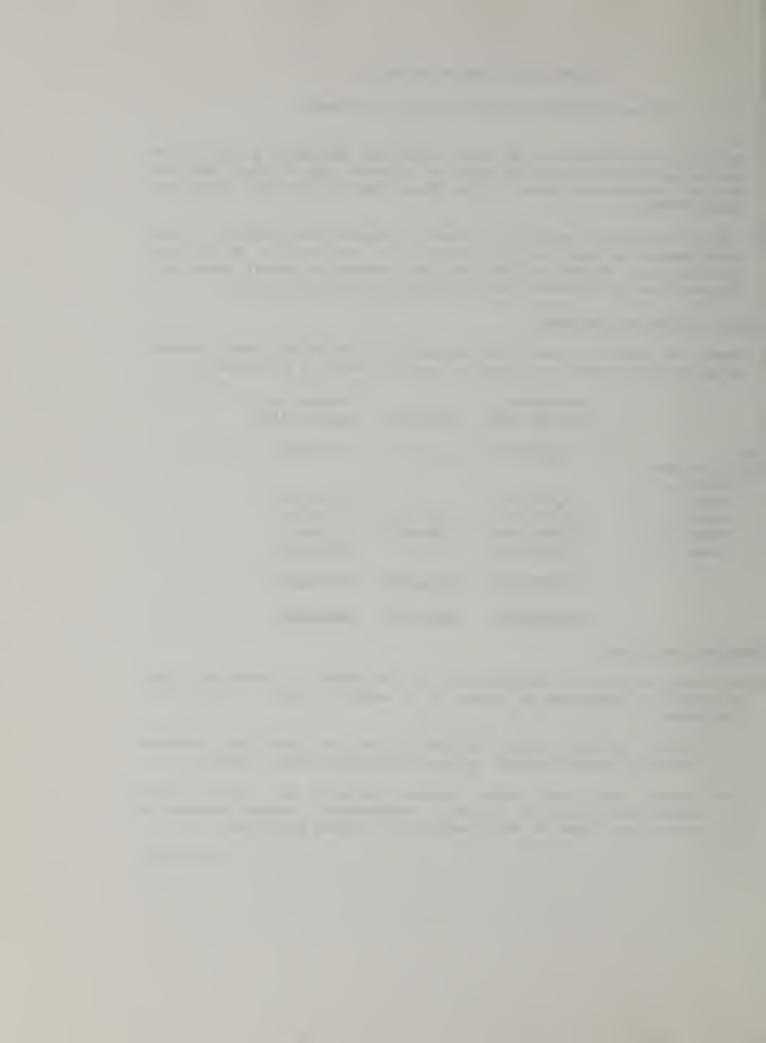
A summary of property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1989, is as follows:

	Balance at June 30, 1988	<u>Additions</u>	Balance at June 30, 1989
Land Water treatment	\$	<del></del>	244,093
facilities:			
Phase I	11,525,427	-	11,525,427
Phase II	30,354,821	377,293	30,732,114
Phase III	15,875,492	1,284,687	17,160,179
Phase IV	6,241,213	<del>-</del>	6,241,213
	63,996,953	1,661,980	65,658,933
	\$ 64,241,046	1,661,980	65,903,026

#### Temporary Borrowings

Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:

- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS)
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FAANs and SAANs)



#### Notes to General Purpose Financial Statements

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were \$535,004 and are accounted for in the Capital Projects Fund. At June 30, 1989, the following notes were outstanding:

Type	<u>Bank</u>	Amount	Due Date	Interest <u>Rate</u>
SAAN	Shawmut Bank of Boston	\$ 1,000,000	7/28/89	6.74%
SAAN	Eastern Bank	500,000	7/28/89	7.00%
SAAN	Bank of New England	633,000	7/28/89	7.09%
SAAN	Baybank	2,100,000	7/28/89	6.80%
SAAN	Baybank	4,081,000	7/28/89	6.80%
BAN	Bank of New England	500,000	12/28/89	6.65%

#### \$ 8,814,000

#### Bonds Payable

A summary of bonds payable at June 30, 1989 follows:

	Balance at June 30, 1988	Payments	Balance at June 30, 1989
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,020,000	70,000	950,000
Second Series A 6.875% serial bonds payable in annual install-ments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	620,000	40,000	580,000
			(Continued)



#### Notes to General Purpose Financial Statements

	Balance at June 30, 1988	Payments	Balance at June 30, 1989
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	715,000	55,000	660,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	50,000	10,000	40,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1990, \$20,000 through 1994, \$15,000 in 1995.	136,000	21,000	115,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	2,090,000	110,000	1,980,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	845,000	65,000	780,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 through 1993.	760,000	155,000	605,000
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1990, \$200,000 in 1991, \$140,000 in 1991, \$135,000 through 1995.	1,079,000	199,000	880,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 and 1992.	765,000	155,000	610,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1991, \$60,000 through 1995.	430,000	65,000	365,000
Act of 1972 8.0% bonds payable in annual installments of \$40,000 through 1992	200,000	40,000	160,000
Total bonds payable	\$ 8,710,000	<u>985,000</u>	7,725,000
			(Continued)



#### Notes to General Purpose Financial Statements

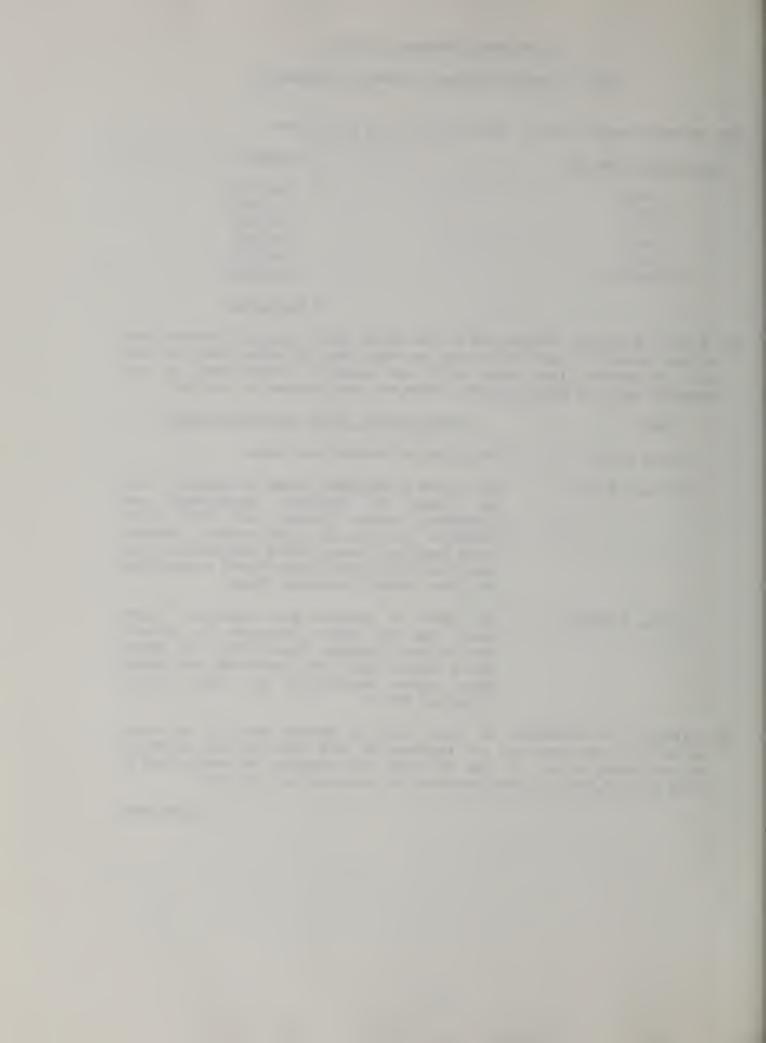
The aggregate maturities of long-term debt are as follows:

Year ending June 30:	<u>Am</u>	ount
1990		5,000
1991	91	5,000
1992	90	5,000
1993	90	5,000
1994	550	0,000
Thereafter	3,46	5,000
	\$ <u>7,72</u>	5,000

The Bonds are general obligations of the South Essex Sewerage District and to the extent not paid from other sources, both principal and interest will be payable from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

Bond	Member Cities, Towns and Institutions
Series A Bonds	The Cities of Peabody and Salem
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions: Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm)
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital; Essex County Agricultural and Technical Institute; Essex County Sanatorium; and Essex County Industrial Farm)

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1989, the District was authorized to issue \$22,200,000 in connection with its construction projects.



## Notes to General Purpose Financial Statements

#### () Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. Each participating employer's share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the System for the year ended June 30, 1989 was \$1,680,323. The total payroll for the District was \$1,708,051.

The System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the System after January 1, 1979 were previously subject to a cap of \$30,000 on the level of compensation upon which their benefit was calculated. Effective June 15, 1989, the \$30,000 salary cap was removed.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. Effective June 15, 1989, any member of the System hired on or after January 1, 1979 will have an additional 2% of his regular pay over \$30,000 withheld. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits.



# Notes to General Purpose Financial Statements

(b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1989 contribution to the System represented 7.16 percent of total contributions required of all participating employers.

## (c) Contribution Requirements and Contribution Made

The Retirement System funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employee Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the System for 1989 of \$418,454 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$311,701 (18.6% of current covered payroll); employees contributed \$106,753 (6.4% of current covered payroll).

#### (d) Trend Information

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is required by GAAP to be included in the System's annual financial report. It is not known whether this report will contain the required historical trend information.



#### Notes to General Purpose Financial Statements

#### (9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1989:

Capital projects:		
Phase II	\$ (2,	811,505)
Phase III	(2,	880,098)
Phase IV	. (	572,473)
Salem Acres	(	247,849)
	\$ (6.	469.665)

The deficits in these funds will be eliminated through future bond issues and Federal and state grants.

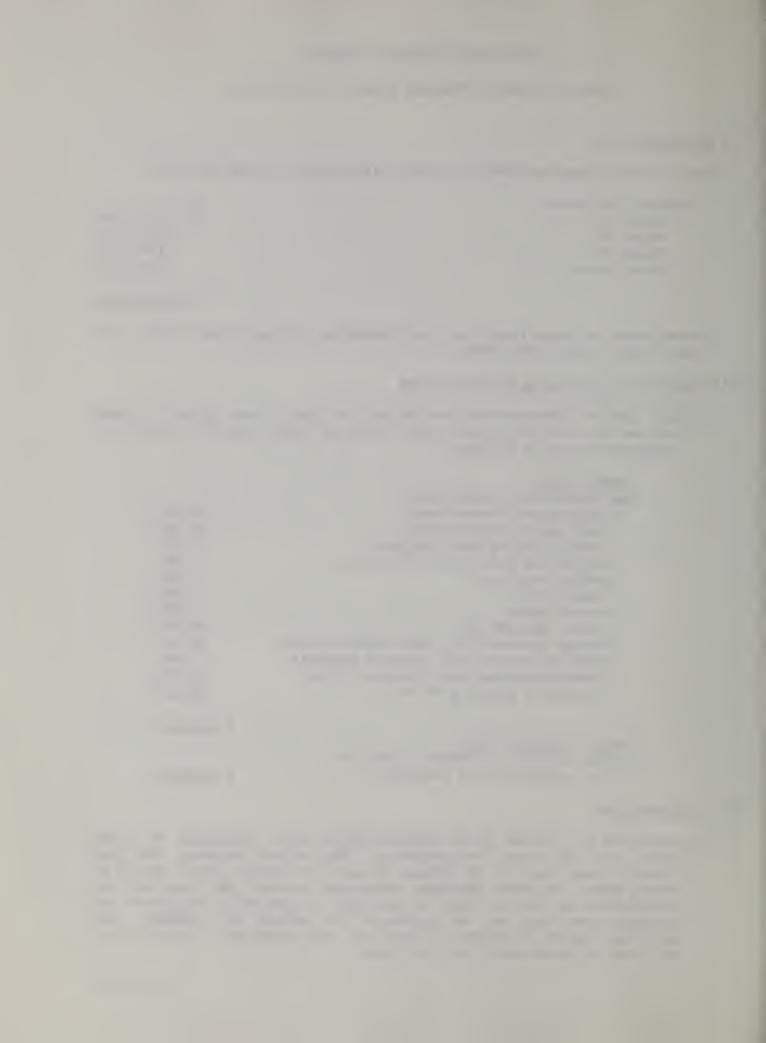
## (10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised in fiscal years prior to 1989, but not expended in fiscal year 1989 are being carried forward to subsequent years as follows:

General Fund Maintenance and Operations:		
Cost Apportionment Study	\$	29,800
Robbins-Myers Mazorators	•	10,360
Plant Lighting Modifications		15,100
Laboratory Fume Hood Installation		15,000
Office Furniture		4,000
Tank Repair		27,589
Annual Report		2,000
Plant Landscaping		10,000
Sludge Process Bldg. HVAC Modifications		26,922
Toxicity Testing and Chemical Analysis		71,860
Bioaccumulation Study Proposal FY 89		65,590
Industrial Sampling FY 89		36,000
industrial bampring if oy		
	\$	314,221
Capital Projects Fund	•	727,722
Escrow for work on Phase IV that was		
not satisfactorily completed.	\$	54,546

# (11) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of cleanup. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.



#### Notes to General Purpose Financial Statements

The District has also been named as a defendant in actions brought by the U.S. Environmental Protection Agency and the Commonwealth of Massachusetts regarding the District's discharges into Salem Harbor. These actions contend that the District is in violation of the Federal Clean Water Act and the State Clean Waters Act, and both actions are seeking an order to the District to construct secondary treatment facilities and also to pay civil penalties. The District has denied that payment of any civil penalty is warranted in either complaint. The District's legal counsel believes that the combined penalty payable to both the EPA and the Commonwealth would not exceed \$500,000. However, the actual penalty amount, if any, could exceed this amount.



Combining Statement of Revenues, Expenditures and Changes in Fund Equity

# Capital Projects Fund

Year ended June 30, 1989

	Phase I	Phase II	Phase III	Phase IV	Salem <u>Acres</u>	Total
Revenues:     Intergovernmental     Interest	3,341 3,341	\$ - 914 914	3,036,671 10,422 3,047,093	- - 4,531 - 4,531		3,036,671 31,007 3,067,678
Expenditures: Capital outlay		519,572	1,360,043		259,648	2,139,263
Excess of revenues over						
expenditures	3,341	(518,658)	1,687,050	4,531	(247,849)	928,415
Fund balance (deficit) June 30, 1988	38,919	(2,292,847)	(4,567,148)	(577,004)	(	7,398,080)
Fund deficit, June 30, 1989 \$	42,260	<u>(2,811,505</u> )	(2,880,098)	<u>(572,473</u> )	(247,849)	<u>(6,469,665</u> )



KPMG Peat Marwick

Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements and Supplementary Schedule

Year ended June 30, 1990

(With Independent Auditors' Report Thereon)

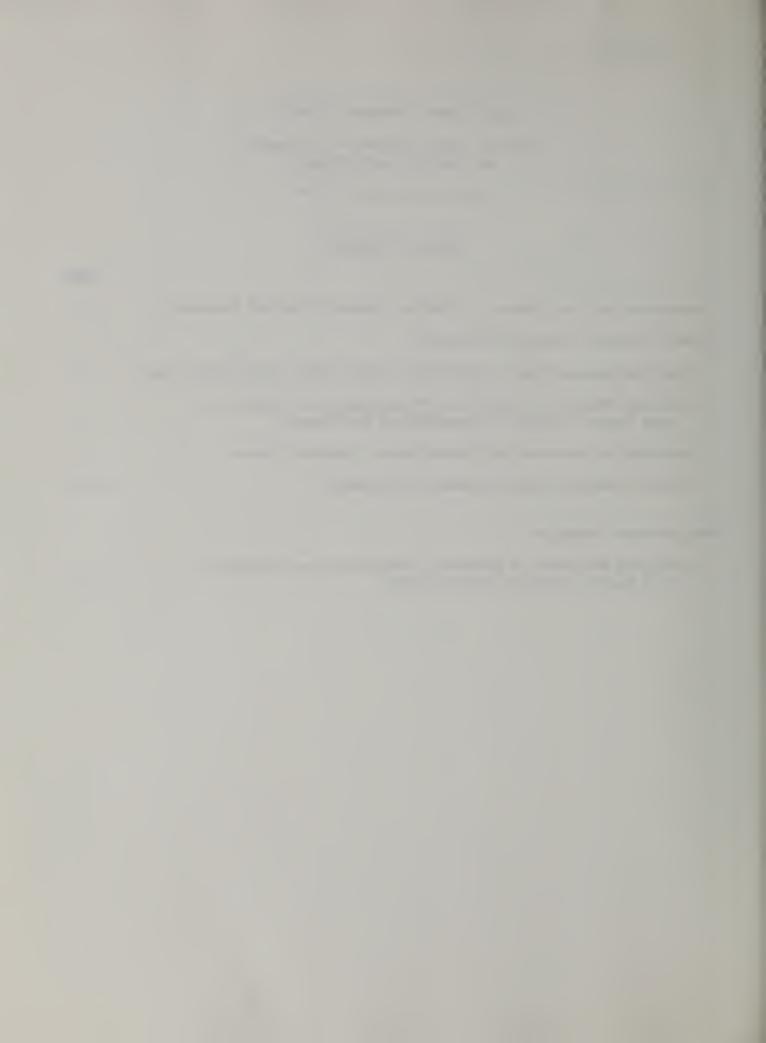


# General Purpose Financial Statements and Supplementary Schedule

Year Ended June 30, 1990

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Certified Public Accountants

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors South Essex Sewerage District:

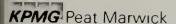
We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1990, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and <u>Government Auditing Standards</u> issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1990, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.



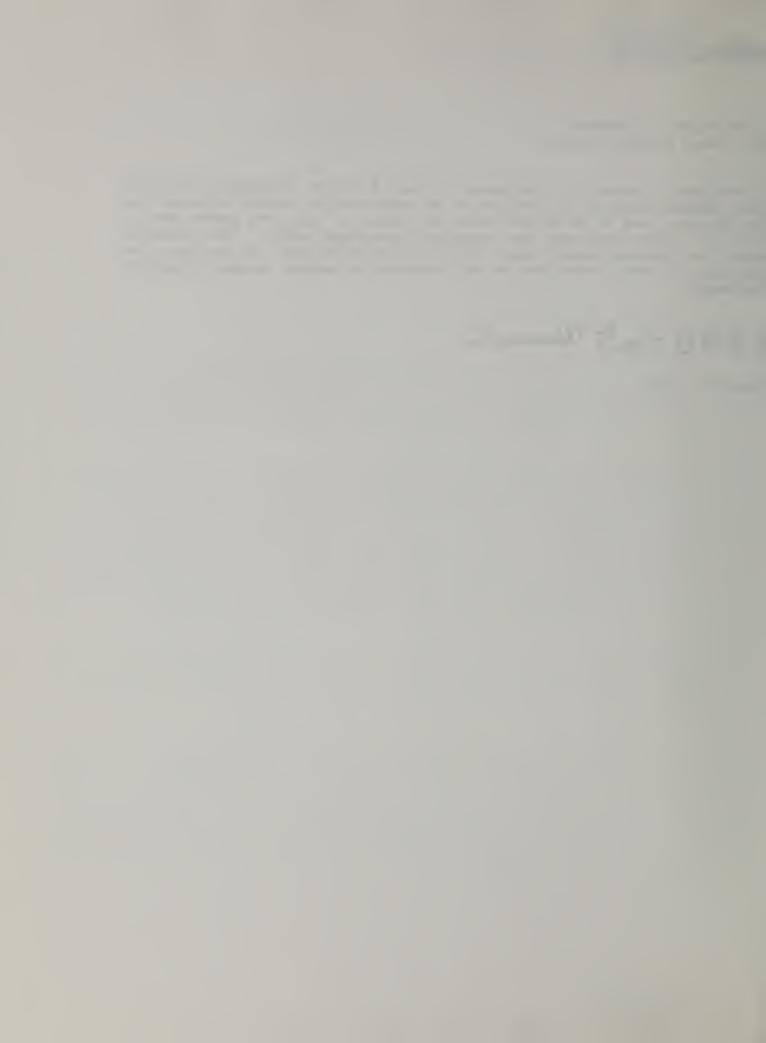


To the Board of Directors South Essex Sewerage District:

KPMG Pert Manuel

As disclosed in note ll to the general purpose financial statements, the South Essex Sewerage District is involved in an administrative action alleging that the District used a particular site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The potential amount of clean-up costs cannot presently be determined. Accordingly, no liability has been recognized in the accompanying general purpose financial statements

August 24, 1990



SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - Governmental Fund Types and Account Groups

June 30, 1990

Total (Nemorandum only)	8,680,146	5,173,224 2,755,694	244,093 73,170,486	6,764,405	26,287,816		469,810	606,111	19,614,000	24,405	7,829 6,740,000 2,755,694	30,970,182	163,233 73,414,579 (7,560,178)	66,017,634	26.28Z.816
Account Groups ixed Long-Term sets Obligations	1 1	1 1	1 1	6,764,405	504,402,0		1	1 1	1	24,405	6,740,000	6,764,405	1 1 1	ı	305 4 5 9 2 4 9
Fixed Assets	1 1	1 1	244,093 73,170,486	1	13,414,579		ı	1 1	1	1 1	1 1 1	1	73,414,579	73,414,579	13,414,579
Governmental Fund Types real Capital	5,851,451	5,173,224 2,755,694	1 1	1	13,780,369		31,919	1 1	19,614,000	1 1 6	2,755,694	22,409,442	59,075	(8,629,073)	13,780,369
Gover Fund General Fund	\$ 2,828,695 199,768	1 1	1 1	1	\$ 3,028,463		\$ 437,891	606,111	1	379,211	1 1 1	1,796,335	104,158 - 1,1 <u>27,970</u>	1,232,128	\$ 3,028,463
ASSETS	Cush Accounts receivable members Reimburseable grant expenditures:	Billed and unpaid Not billed Property, plant and equipment (note 5):	رت س <u>ب</u>	general long-term obligations	Total assets	Lidbilities and Fund Equity (Deficit)	Liabilities: Warrants payable Member refunds:	Assessments Chemical	Short-term borrowings (note 6) Accrued liabilities:	Vacation Interest Other	Bonds payable (note 7) Deferred revenue	Total liabilities	Fund equity (deficit): Reserved for continuing appropriations (note 10) Investment in fixed assets Unreserved fund equity (deficit) (note 9)	Total fund equity (deficit)	٠

See accompanying notes to general purpose financial statements.



# Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) - All Governmental Fund Types

# Year ended June 30, 1990

	Governmental General Fund	Fund Types Capital Projects	Total (Memorandum <u>only)</u>
venue: Assessments to district members Interest Septage Intergovernmental Other Total revenues	\$ 9,044,292 318,920 150,472 - 156,000 9,669,684	170,200 6,540,225 10,701 6,721,126	9,044,292 489,120 150,472 6,540,225 166,701 16,390,810
<pre>penditures:    General administration:      Personnel costs      Expenses  Engineering:</pre>	195,500 1,150,874 1,346,374	- - 	195,500 1,150,874 1,346,374
Personnel costs Expenses	$ \begin{array}{r} 371,563 \\ \underline{36,538} \\ 408,101 \end{array} $	<u>-</u>	$ \begin{array}{r} 371,563 \\ \underline{36,538} \\ 408,101 \end{array} $
Operations: Personnel costs Expenses	732,195 4,131,596 4,863,791		732,195 4,131,596 4,863,791
Maintenance: Personnel costs Expenses	460,162 421,703	<u> </u>	460,162 421,703 381,865
Construction debt service: Principal Interest - long-term debt Interest - short-term debt	985,000 523,149 376,190 1,884,339	- - - -	985,000 523,149 376,190 1,884,339
In lieu of taxes Capital outlay Penalties	70,000 - 227,600 297,600	8,880,534 - 8,880,534	70,000 8,880,534 227,600 9,178,134
Total expenditures	9,682,070	8,880,534	18,562,604
Excess of revenues over expenditures	(12,386)	(2,159,408)	(2,171,794)
nd equity (deficit), beginning of year	1,244,514	(6,469,665)	(5,225,151)
nd equity (deficit), end of year	\$ <u>1,232,128</u>	(8,629,073)	(7,396,945)

e accompanying notes to general purpose financial statements.



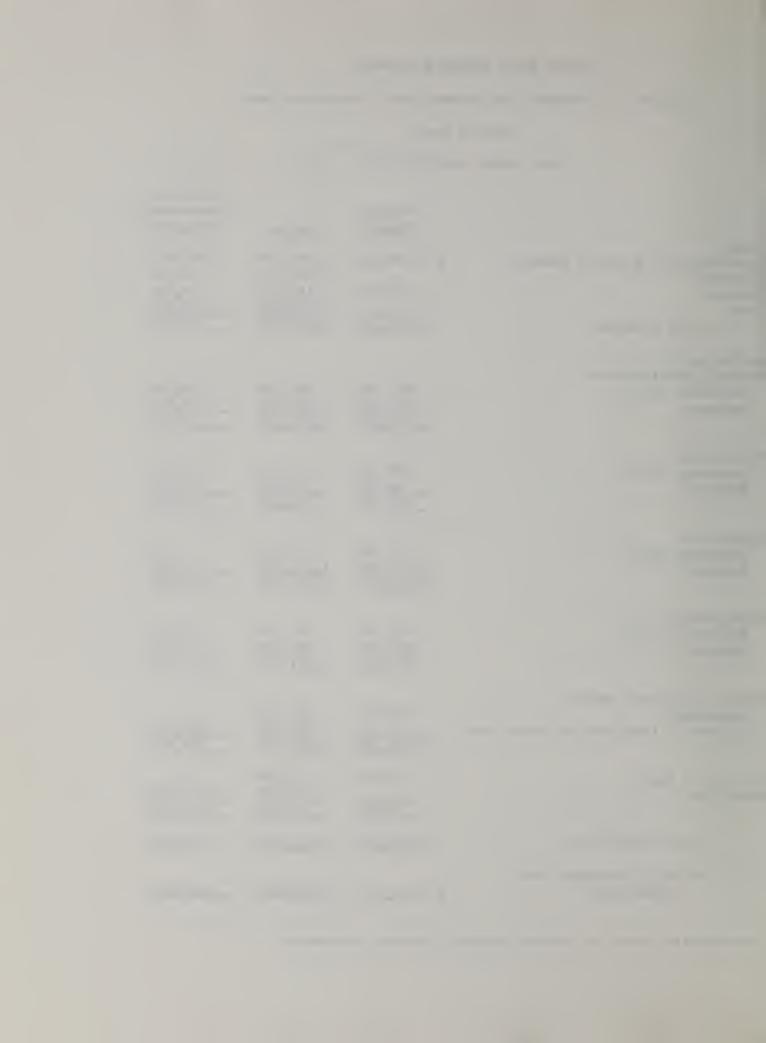
# Statement of Revenues and Expenditures - Budgetary Basis

# General Fund

# Year ended June 30, 1990

Wanua s	Original <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable) <u>Variances</u>
evenues: Assessments to district members	\$ 9,490,365	9,044,292	(446,073)
Interest	¥ 9,490,303	318,920	318,920
Septage	106,050	150,472	44,422
Other	-	156,000	156,000
Total revenues	9,596,415	9,669,684	73,269
penditures:			
General administration:	222 522	105 500	22.022
Personnel costs	293,589	195,500	98,089
Expenses	1,071,500	1,150,874	(79,374)
	1,365,089	1,346,374	18,715
Engineering:			
Personnel costs	409,235	371,563	37,672
Expenses	56,200	36,538	19,662
	465,435	408,101	57,334
Operations:			
Personnel costs	731,238	732,195	(957)
Expenses	3,987,878	3,921,533	66,345
	4,719,116	4,653,728	65,388
Maintenance:			
Personnel costs	491,507	460,162	31,345
Expenses	391,050	421,703	(30,653)
	882,557	881,865	692
Construction debt service:			
Principal	985,000	985,000	-
Interest - long-term and short-term	1,109,218	899,339	209,879
	2,094,218	1,884,339	209,879
In lieu of taxes	70,000	70,000	-
Penalties		227,600	(227,600)
	70,000	297,600	(227,600)
Total expenditures	9,596,415	9,472,007	124,408
Excess of revenues over			
expenditures	\$	197,677	<u>197,677</u>

e accompanying notes to general purpose financial statements.



#### Notes to General Purpose Financial Statements

June 30, 1990

## (1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

# (2) Summary of Significant Accounting Policies

## (a) Basis of Presentation

The financial condition and results of operations of the District's funds are presented as of and for the year ended June 30, 1990. The accounting policies of the District conform with generally accepted accounting principles ("GAAP").

#### (b) Fund Accounting

The operations of the District are recorded in the following fund types and account groups:

#### • Governmental Fund Types

Governmental funds are used to account for the District's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

<u>Capital Project Funds</u> - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants.

#### • Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets which are capitalized for financial statement purposes.



#### Notes to General Purpose Financial Statements

<u>General Long-term Obligations Account Group</u> - This account group is used to account for all long-term obligations of the District.

#### (c) Basis of Accounting

- The modified accrual basis of accounting is followed by governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation leave, which is recorded in the general long-term obligations account group.
- In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Assessments and septage income are recognized as revenue in the year for which they have been billed. Investment earnings are recorded as earned.

#### (d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased.

#### (e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations." Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities.

#### (f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements or related debt, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated



Notes to General Purpose Financial Statements

annual sewerage flow and other factors. At fiscal year end, estimated bills are adjusted for actual results. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility. Such costs are billed yearly.

A statewide tax limitation statute known as "Proposition 2-1/2" limits annual increases in total assessments to members by 2-1/2%. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

During 1989, the member communities voted to set up separate bank accounts for their assessment payments so that the interest earned on these payments would be specifically credited to their accounts. Such interest earned on member's accounts totalled \$237,149 at June 30, 1990 and is included in unreserved fund equity.

# (g) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable is recorded in the general long-term obligations account group. The amount recorded is the unused days earned at the current rate of pay.

#### (h) Deferred Revenue

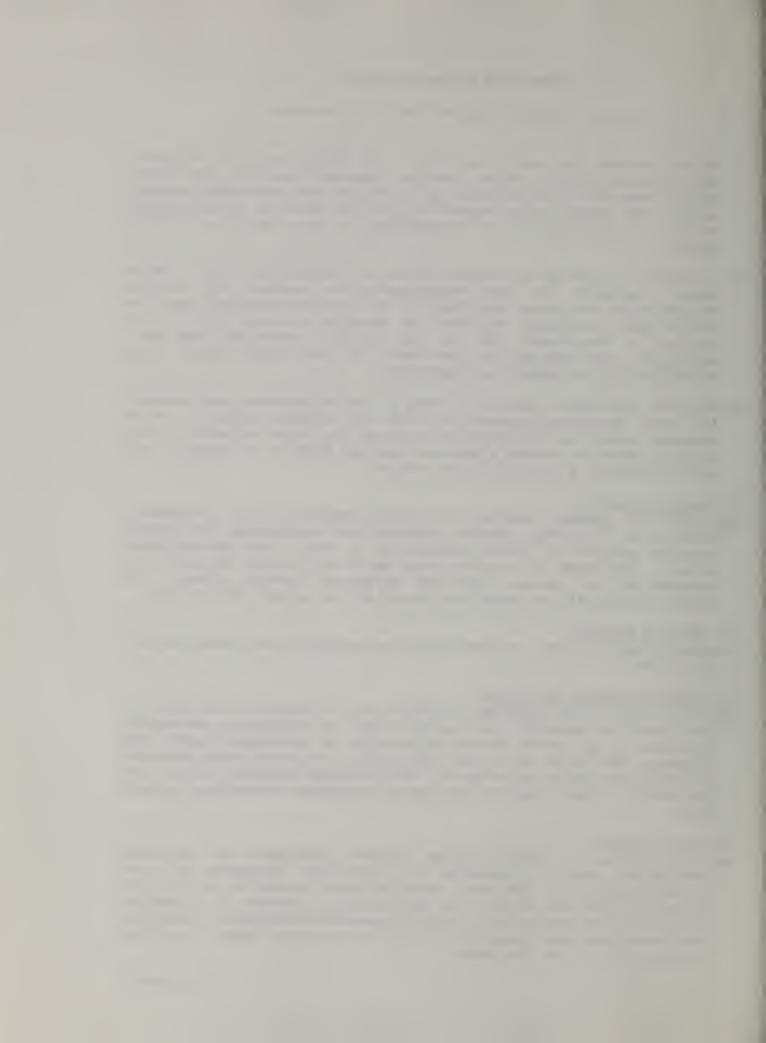
Revenue is deferred when measurable but not available to finance current operations.

# (i) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the general long-term obligations account group.

#### (j) Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.



#### Notes to General Purpose Financial Statements

# (3) Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all other revenues and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures — Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The difference between the budget and GAAP basis is that continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP),

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1990:

	Revenue	Expenditures
As reported on a budgetary basis	\$ 9,669,684	9,472,007
Adjustment for continuing appropriations		210,063
As reported on a GAAP basis	\$ <u>9,669,684</u>	9,682,070

#### 4) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").



## Notes to General Purpose Financial Statements

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$8,706,934, (carrying value \$8,674,970) \$647,308 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

# ) Property, Plant and Equipment

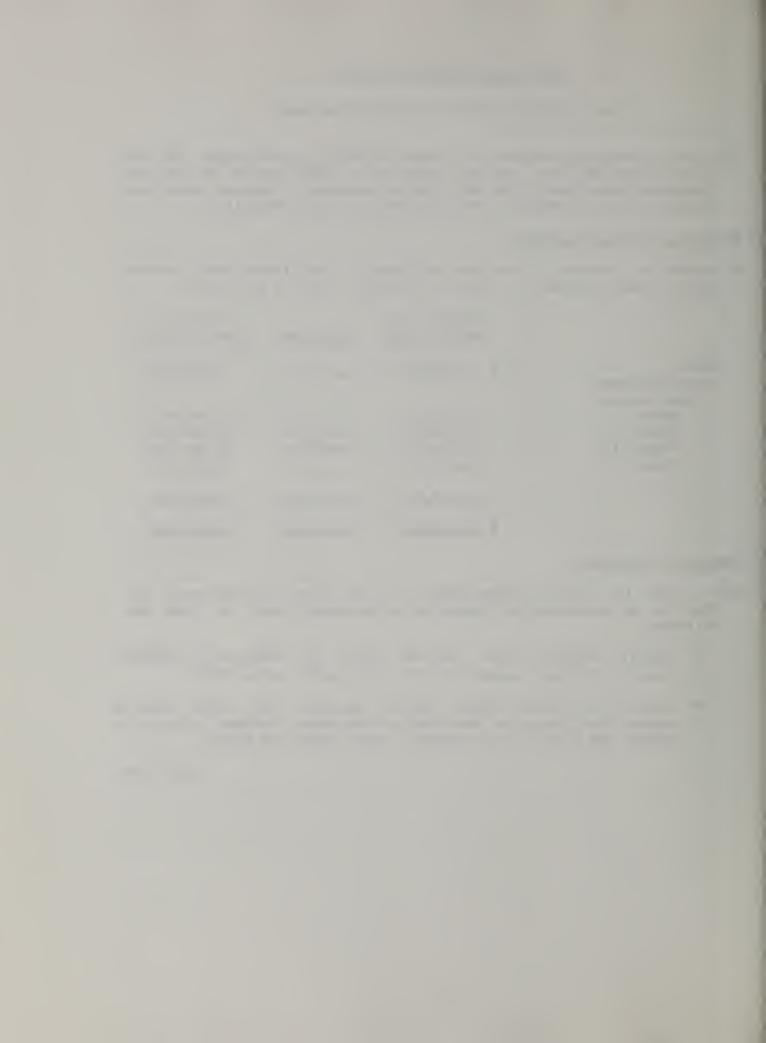
A summary of property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1990, is as follows:

	Balance at June 30, 1989	Additions	Balance at June 30, 1990
Land Water treatment facilities:	\$ 244,093		244,093
Phase I Phase II Phase III Phase IV	11,525,427 30,732,114 17,160,179 6,241,213	1,818,342 5,693,211	11,525,427 32,550,456 22,853,390 6,241,213
	65,658,933	7,511,553	73,170,486
	\$ 65,903,026	7,511,553	73,414,579

# ) Temporary Borrowings

Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:

- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS)
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FAANs and SAANs)



# Notes to General Purpose Financial Statements

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were \$675,995 and are accounted for in the Capital Projects Fund. At June 30, 1990, the following notes were outstanding:

T	n . l.	A	D = D =	Interest
Type	<u>Bank</u>	Amount .	<u>Due Date</u>	Rate
SAAN	State Street Bank	\$ 2,100,000	9/12/90	6.35%
SAAN	State Street Bank	2,031,000	9/12/90	6.40%
SAAN	State Street Bank	1,633,000	9/12/90	6.45%
BAN	Eastern Bank	250,000	9/12/90	6.29%
SAAN	Eastern Bank	50,000	9/12/90	7.50%
SAAN	Bank of Boston	3,300,000	9/12/90	7.75%
BAN	Bank of New England	700,000	9/12/90	6.55%
BAN	Bank of New England	1,000,000	9/12/90	6.90%
SAAN	Bank of New England	1,250,000	9/12/90	6.75%
SAAN	Shawmut Bank	2,000,000	9/12/90	7.45%
SAAN	Shawmut Bank	5,300,000	9/12/90	7.59%

# \$ 19,614,000

# (7) Bonds Payable

A summary of bonds payable at June 30, 1990 follows:

	Balance at June 30, 1989	Payments	Balance at June 30, 1990
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 950,000	70,000	880,000
Second Series A 6.875% serial	\$ 750,000	70,000	330,000
bonds payable in annual install- ments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	580,000	40,000	540,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	660,000	55,000	605,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	40,000	, 10,000	30,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1991, \$20,000			
through 1994, \$15,000 in 1995.	115,000	20,000	95,000
			(Continued)

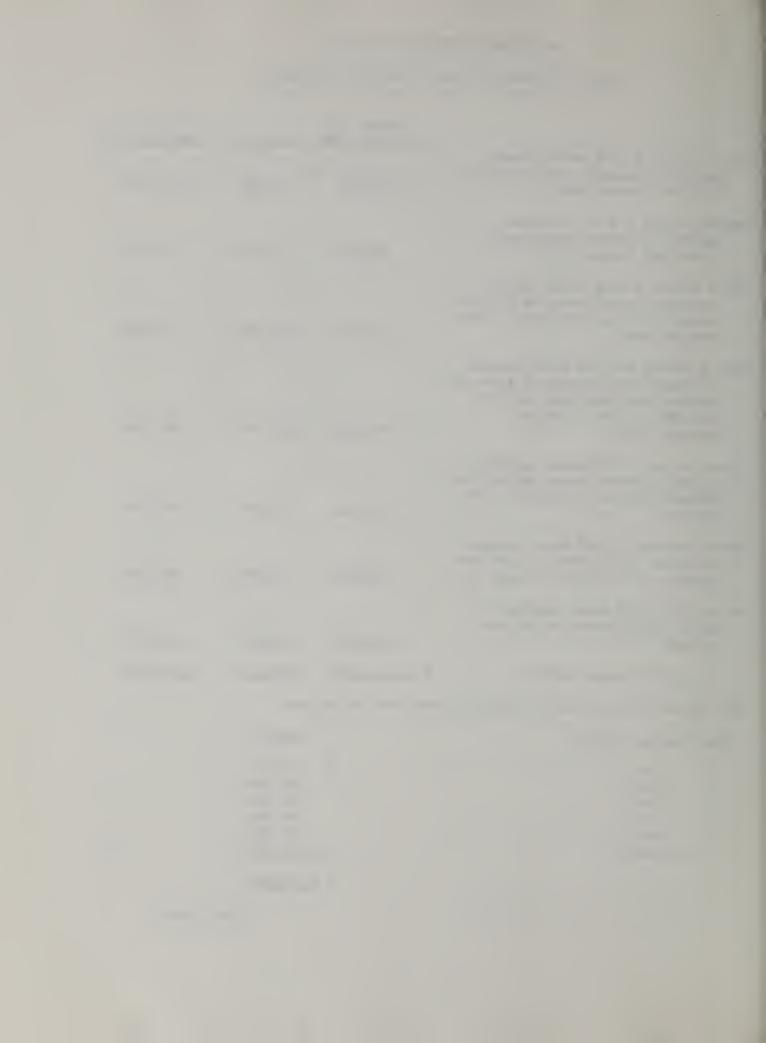


# Notes to General Purpose Financial Statements

	Balance at June 30, 1989	Payments	Balance at June 30, 1990
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	1,980,000	110,000	1,870,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	780,000	65,000	715,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 through 1993.	605,000	155,000	450,000
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1991, \$200,000 in 1991, \$140,000 in 1991, \$135,000 through 1995.	880,000	200,000	680,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 and 1992.	610,000	155,000	455,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1991, \$60,000 through 1995.	365,000	65,000	300,000
Act of 1972 8.0% bonds payable in annual installments of \$40,000 through 1992	160,000	40,000	120,000
Total bonds payable	\$ <u>7,725,000</u>	<u>985,000</u>	6,740,000

The aggregate maturities of long-term debt are as follows:

Year ending June 30:	Amount
1991	\$ 915,000
1992	905,000
1993	905,000
1994	555,000
1995	550,000
Thereafter	2,910,000
	\$ <u>6,740,000</u>



# Notes to General Purpose Financial Statements

The Bonds are general obligations of the South Essex Sewerage District and to the extent not paid from other sources, both principal and interest will be payable from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

Bond	Member Cities, Towns and Institutions
Series A Bonds	The Cities of Peabody and Salem
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions: Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm)
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital; Essex County Agricultural and Technical Institute; Essex County Sanatorium; and Essex County Industrial Farm)

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1990, the District was authorized to issue \$30,000,000 of original issue debt in connection with its construction projects.



Notes to General Purpose Financial Statements

# (8) Pension Plan

# (a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. Each participating employer's share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the System for the year ended June 30, 1990 was \$1,732,980. The total payroll for the District was \$1,759,420.

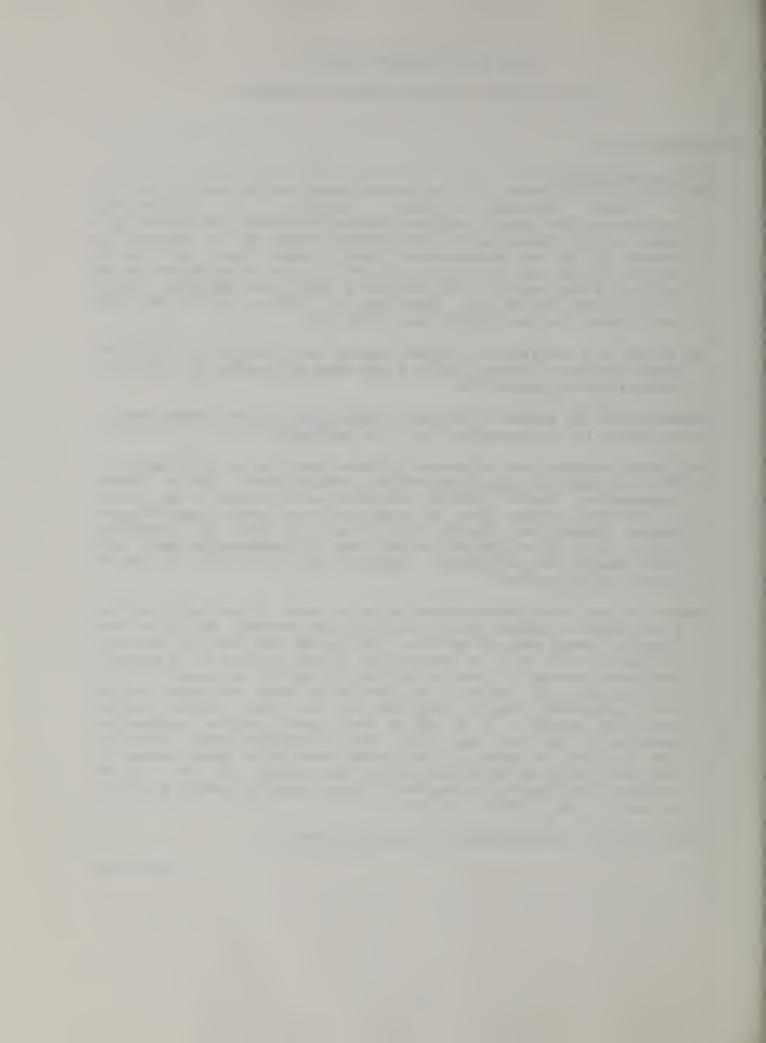
The System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the System after January 1, 1979 were previously subject to a cap of \$30,000 on the level of compensation upon which their benefit was calculated. Effective June 15, 1990, the \$30,000 salary cap was removed.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. Effective June 15, 1990, any member of the System hired on or after January 1, 1979 will have an additional 2% of his regular pay over \$30,000 withheld. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits.



# Notes to General Purpose Financial Statements

# (b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1990 contribution to the System represented 7.34 percent of total contributions required of all participating employers.

# (c) Contribution Requirements and Contribution Made

The Retirement System funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employee Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the System for 1990 of \$446,493 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$327,050 (18.9% of current covered payroll); employees contributed \$119,443 (6.9% of current covered payroll).

# (d) Trend Information

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is required by GAAP to be included in the System's annual financial report. It is not known whether this report will contain the required historical trend information. (Continued)



# Notes to General Purpose Financial Statements

# (9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1990:

Capital projects:	
Phase II	\$ (2,836,592)
Phase III	(3,758,003)
Phase IV	(544,014)
Salem Acres	<u>(1,536,119</u> )
	\$ (8.674.728)

The deficits in these funds will be eliminated through future bond issues and Federal and state grants.

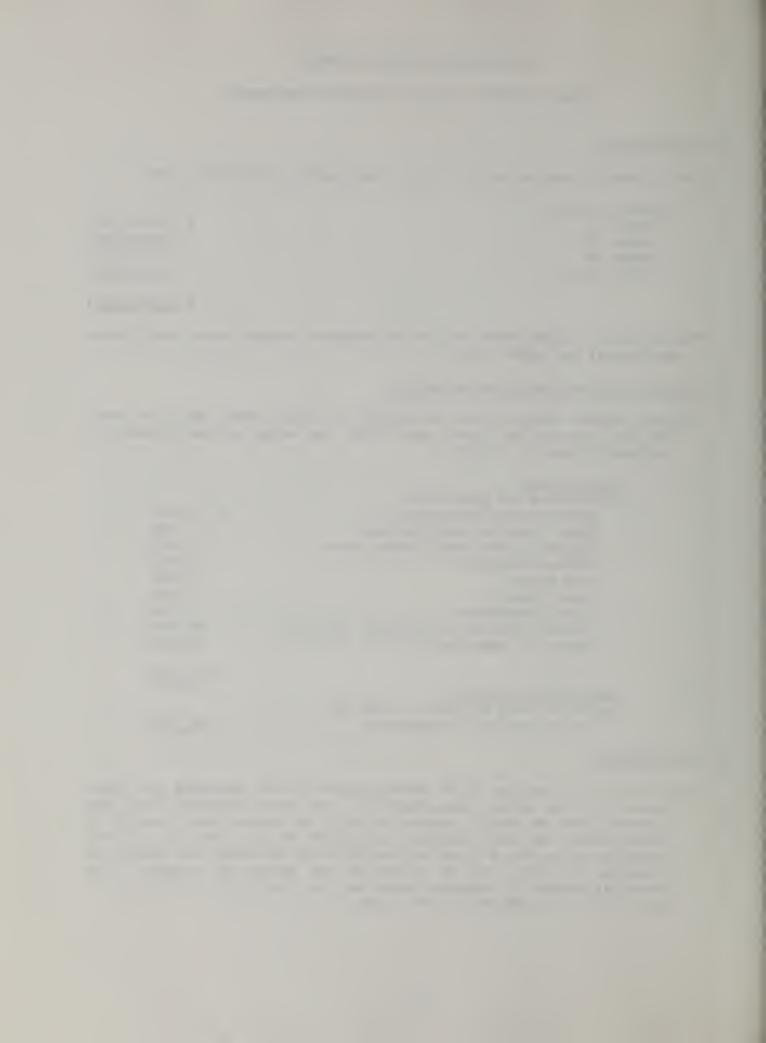
# (10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised in fiscal years prior to 1990, but not expended in fiscal year 1990 are being carried forward to subsequent years as follows:

General Fund Maintenance and Operations:	
Robbins-Myers Mazorators	\$ 10,360
Plant Lighting Modifications	599
Laboratory Fume Hood Installation	15,000
Office Furniture	4,000
Tank Repair	3,324
Annual Report	2,000
Plant Landscaping	424
Toxicity Testing and Chemical Analysis	58,090
Industrial Sampling FY 89	10,361
	\$ 104,158
Capital Projects Fund	
Escrow for work on Phase IV that was	
not satisfactorily completed.	\$ 59,075

# (11) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of cleanup. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.



# Schedule 1

# SOUTH ESSEX SEWERAGE DISTRICT

# Combining Statement of Revenues, Expenditures and Changes in Fund Equity

# Capital Projects Fund

Year ended June 30, 1990

	Phase I	Phase II	Phase III	Phase IV	Salem <u>Acres</u>	Total
Revenues:    Intergovernmental    Interest    Other	3,395 	1,959,906 28,089 - 1,987,995	4,580,319 92,685 - 4,673,004	17,758 10,701 28,459	28,273 - 28,273	6,540,225 170,200 10,701 6,721,126
Expenditures: Capital outlay		2,013,082	5,550,909		1,316,543	8,880,534
Excess of revenues over expenditures	3,395	(25,087)	(877,905)	28,459	(1,288,270)	(2,159,408)
Fund balance (deficit) June 30, 1989				·	(247,849)	
Fund deficit, June 30, 1990 \$	45,655	<u>(2,836,592</u> )	(3,758,003)	<u>(544,014</u> )	(1,536,119)	(8,629,073)



KPMG Peat Marwick

Certified Public Accountants

# SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements
and Supplementary Schedule

Year ended June 30, 1991

(With Independent Auditors' Report Thereon)

GOVERNMENTS COLLECTION

NOV 8 1993

Highway of Massaulistus

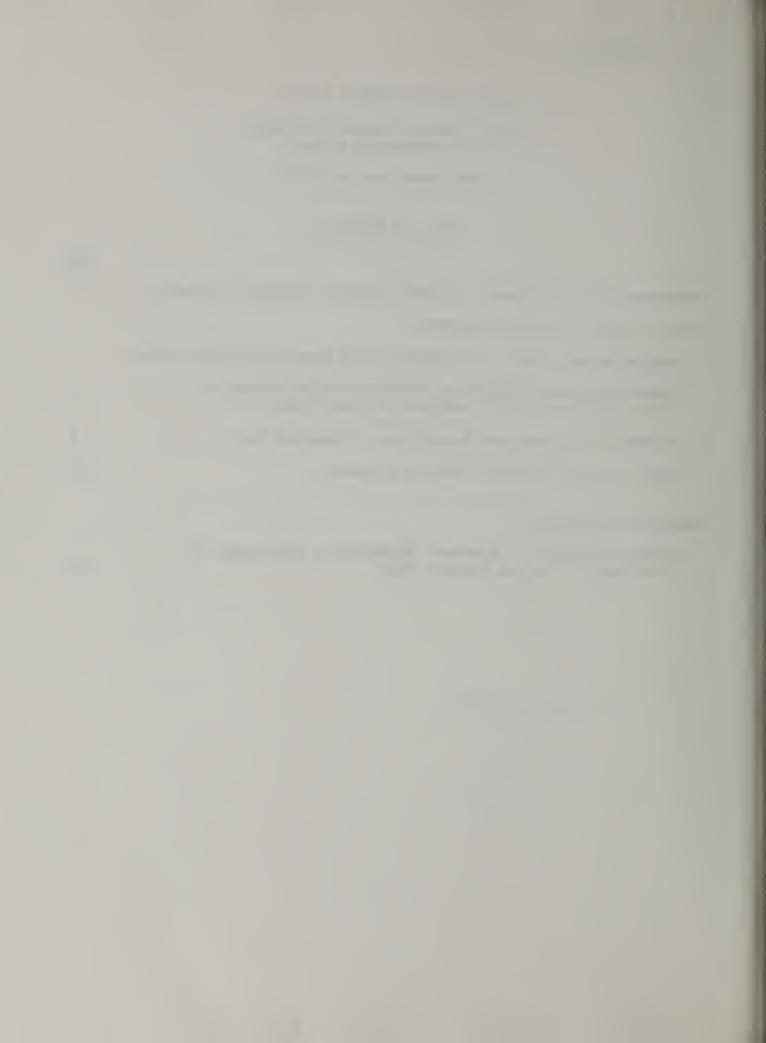


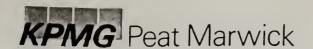
# General Purpose Financial Statements and Supplementary Schedule

Year Ended June 30, 1991

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General Purpose Financial Statements:	
Combined Balance Sheet - Governmental Fund Types and Account Groups	3
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Statement of Revenues and Expenditures - Budgetary Basis	6
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Combining Statement of Revenues, Expenditures and Changes in Fund Equity - Capital Projects Fund	20





Certified Public Accountants

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Essex Sewerage District:

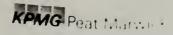
We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1991, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1991, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.





To the Board of Directors South Essex Sewerage District:

Mon a Part Munch

As disclosed in note 11 to the general purpose financial statements, the South Essex Sewerage District is involved in an administrative action alleging that the District used a particular site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The potential amount of clean-up costs cannot presently be determined. Accordingly, no liability has been recognized in the accompanying general purpose financial statements.

September 30, 1991



Combined Balance Sheet - Governmental Fund Types and Account Groups

June 30, 1991

	1	3,25,34, 7,32,50, 1,45,1,533	244,093 - 244,093 83,850,190 - 83,850,190 1,102,250 - 12,173,322	283 12,173,322	886,192 14,684,099	- 48,322 48,322 - 347,442 - 7,830 - 12,125,000 12,125,000 - 139,478 1,102,260	- 12,173,322 29,340,623	- 580,343 84,094,283 - 84,094,283	(4,122,626)	80,552,000	
Governmental	Seneral Titles Apital	\$ 132,850 732,850 732,850 732,850	1,102,260	\$ <del>4.222.523</del> <u>8.702.495</u> <u>8</u> 4	531,210 354,982 - 14,684,099	347,442 - 7,830 - 139,478 - 139,478 139,478	1,980,912 15,186,389	580,343 84	2,361,268 (6,483,894)	2,941,611 (6,483,894) 84	
	A 5 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2	tments r receivable rant expenditures: unpuid	Not billed Property, plant and equipment (note 5): Land Waste treatment facilities Due from other tunds Amount to be provided for retirement of general long-term obligations		Liabilities and Fund Equity (Deficit) Liabilities: Warrants payable Short-term borrowings (note 6) Accrued Liabilities:	Vacation Interest Other Bonds payable (note 7) Deferred revenue Due to other funds	Total liabilities	Fund equity (deficit): Reserved for continuing appropriations (note 10) Investment in fixed assets Unreserved fund equity (deficit)	(notes 9 and 12)	Total fund equity (deficit)	

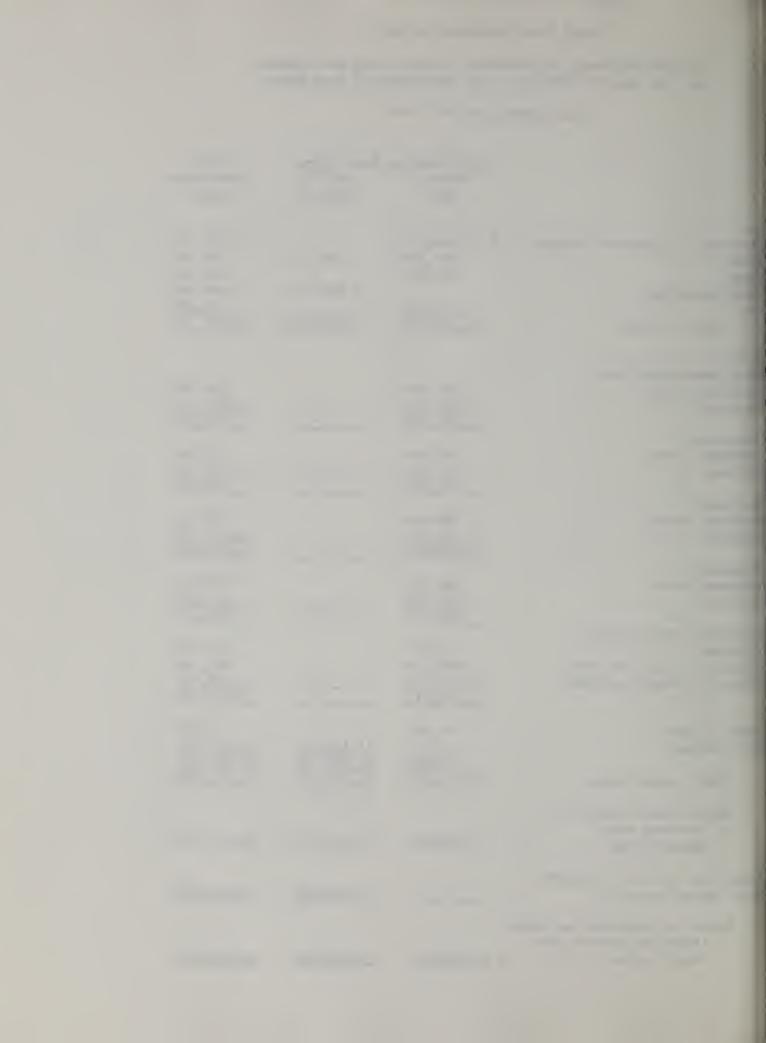
See accompanying notes to general purpose financial statements.



Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) - All Governmental Fund Types

# Year ended June 30, 1991

1	Governmental	Fund Types	Total
	General	Capital	(Memorandum
	<u>Fund</u>	Projects	only)
1			
ne:			
ressments to district members	\$ 11,296,625	-	11,296,625
terest	407,594	387,321	794,915
utage	190,352	_	190,352
rergovernmental		6,968,483	6,968,483
er	54,370	7 255 004	54,370
Total revenues	11,948,941	7,355,804	19,304,745
itures:			
teral administration:			
ersonnel costs	224,087	_	224,087
xpenses	1,082,159	_	1,082,159
жренаез	1,306,246		1,306,246
ineering:	1,300,240		1,500,240
ersonnel costs	355,584	_	355,584
xpenses	57,342	_	57,342
	412,926		412,926
trations:			
ersonnel costs	768,654	-	768,654
xpenses	4,325,182	-	4,325,182
	5,093,836	-	5,093,836
Intenance:			
ersonnel costs	483,347	-	483,347
xpenses	326,930		326,930
	810,277		810,277
struction debt service:			
rincipal	915,000	-	915,000
nterest - long-term debt	823,156	-	823,156
nterest - short-term debt	1,278,756		1,278,756
	3,016,912		3,016,912
lieu of taxes	70,000		70,000
hital outlay	70,000	11,461,741	11,461,741
l outlay	70,000	11,461,741	11,531,741
Total expenditures	10,710,197	11,461,741	22,171,938
Total expenditures	10,710,177	11,401,741	22,171,750
Excess (deficiency) of			
revenues over			
expenditures	1,238,744	(4,105,937)	(2,867,193)
	_,,	, , , ,	,
financing sources - proceeds			
bond issues (note 7)		6,300,000	6,300,000
Excess of revenues and other	r		
financing sources over			
expenditures	\$ <u>1,238,744</u>	2,194,063	<u>3,432,807</u>

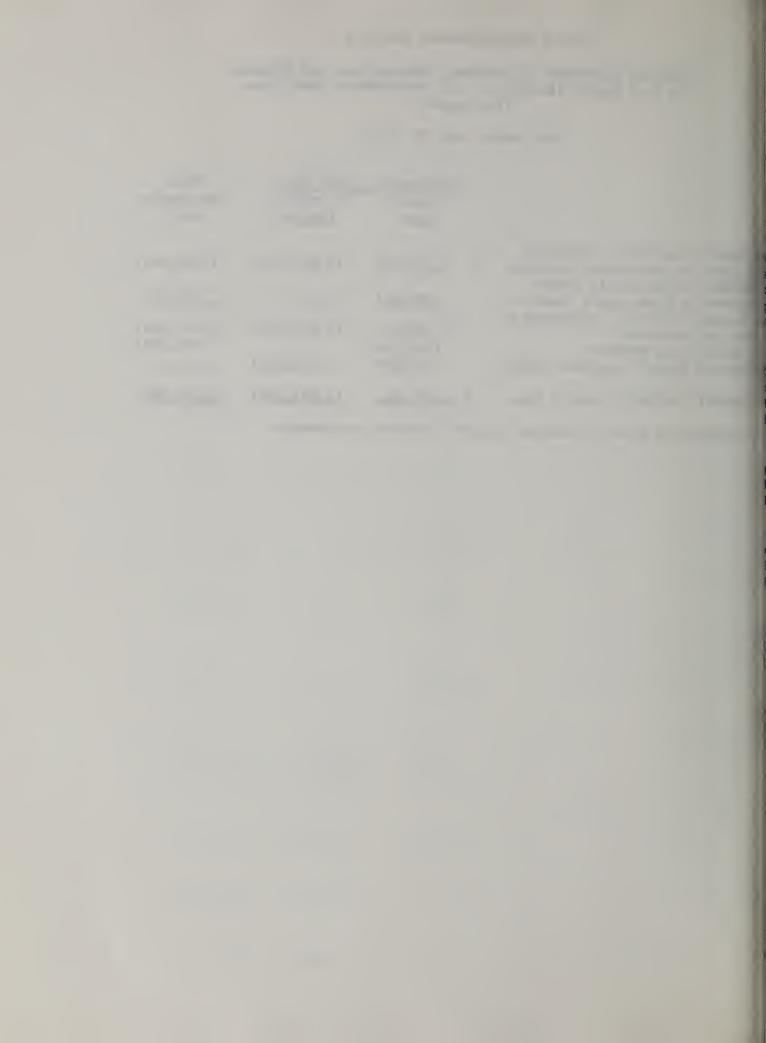


Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) - All Governmental Fund Types (Continued)

Year ended June 30, 1991

	-	Governmental General Fund	Fund Types Capital Projects	Total (Memorandum <u>only)</u>
of year, as previously reported distinct to reclassify member	\$	1,232,128	(8,629,073)	(7,396,945)
refunds as fund equity (note 2) all equity (deficit), beginning of		967,063		967,063
rear, as restated		2,199,191 (545,208)	(8,629,073)	(6,429,882) (545,208)
rasfer of Phase I residual equity		48,884	(48,884)	
und equity (deficit), end of year	\$	2,941,611	(6,483,894)	(3,542,283)

er accompanying notes to general purpose financial statements.



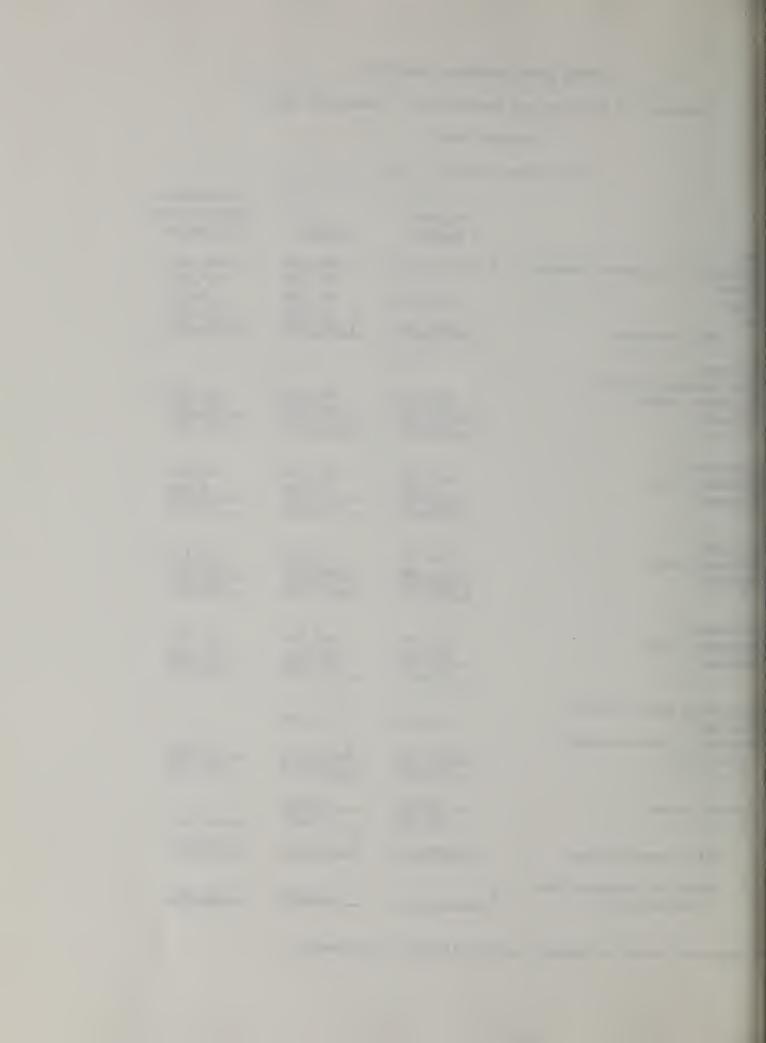
# Statement of Revenues and Expenditures - Budgetary Basis

# General Fund

# Year ended June 30, 1991

enes:	Original <u>Budget</u>	Actual	Favorable (Unfavorable) <u>Variances</u>
Asessments to district members	\$ 13,149,160	11,296,625	(1,852,535)
Inerest	-	407,594	407,594
Setage	159,478	167,788	8,310
Oter	_	54,370	54,370
Total revenues	13,308,638	11,926,377	(1,382,261)
enitures:			
Geeral administration:			
ersonnel costs	365,167	224,087	141,080
xpenses	1,318,140	1,082,159	235,981
	1,683,307	1,306,246	377,061
Enineering:	410 401	255 524	<b></b>
ersonnel costs	418,481	355,584	62,897
xpenses	63,850 482,331	57,342	6,508
	482,331	412,926	69,405
grations:			
'ersonnel costs	760,975	778,154	(17,179)
xpenses	5,581,800	4,890,947	690,853
	6,342,775	5,669,101	673,674
antenance:			
Personnel costs	516,114	483,347	32,767
Expenses	479,655	344,092	135,563
	995,769	827,439	168,330
astruction debt service:			
?rincipal	915,000	915,000	-
interest - long-term and	0.010.456	0 101 010	717 644
short-term	2,819,456	2,101,912	717,544
	3,734,456	3,016,912	717,544
lieu of taxes	70,000	70,000	
	70,000	70,000	
Total expenditures	13,308,638	11,302,624	2,006,014
Excess of revenues over expenditures	\$	623,753	623,753

companying notes to general purpose financial statements.



# Notes to General Purpose Financial Statements

June 30, 1991

# | General

- The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.
- In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.
- Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements or related debt, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual sewerage flow and other factors. At fiscal year end, estimated bills are adjusted for actual results. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility. Such costs are billed yearly.
- A statewide tax limitation statute known as "Proposition 2-1/2" limits annual increases in total assessments to members by 2-1/2%. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.
- In 1990, the Commonwealth of Massachusetts enacted legislation providing for the construction of a secondary waste treatment plant. This amendment of the Acts of 1969 states that the costs of maintenance and operation and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District. These costs are exempt from the limitations of "Proposition 2-1/2" until the facilities have been operated for a period of three years.



# Notes to General Purpose Financial Statements

During 1989, the member communities voted to set up separate bank accounts for their assessment payments so that the interest earned on these payments would be specifically credited to their accounts. Such interest earned on member's accounts totalled \$336,999 at June 30, 1991 and is included in unreserved fund equity.

# (2) Summary of Significant Accounting Policies

# (a) Basis of Presentation

The financial condition and results of operations of the District's funds are presented as of and for the year ended June 30, 1991. The accounting policies of the District conform with generally accepted accounting principles ("GAAP").

# (b) Fund Accounting

The operations of the District are recorded in the following fund types and account groups:

# • Governmental Fund Types

Governmental funds are used to account for the District's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants.

# Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets which are capitalized for financial statement purposes.

<u>General Long-term Obligations Account Group</u> - This account group is used to account for all long-term obligations of the District.



# Notes to General Purpose Financial Statements

(c) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation leave, which is recorded in the general long-term obligations account group.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Assessments and septage income are recognized as revenue in the year for which they have been billed. Investment earnings are recorded as earned.

# (d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased or when the related long-term debt is paid.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations." Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities.



Notes to General Purpose Financial Statements

## (f) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable is recorded in the general long-term obligations account group. The amount recorded is the unused days earned at the current rate of pay.

# (g) Deferred Revenue

Revenue is deferred when measurable but not available to finance current operations.

## (h) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the general long-term obligations account group.

# (i) Member Assessment Refunds

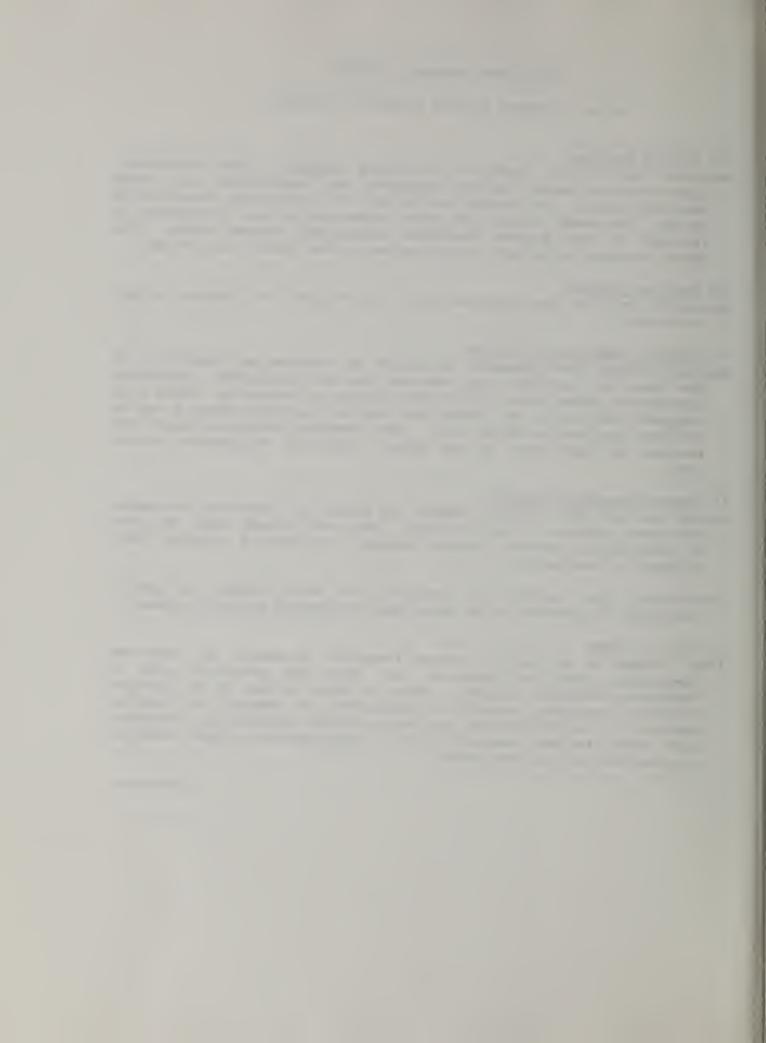
During the year the District changed its method of accounting for member assessment refunds. Prior to fiscal 1991 such refunds were reflected in liabilities; however, certain members historically retained their balances in the District.

Accordingly, the District now accounts for such refunds as equity.

Unreserved fund equity can be distributed to members at their request.

## (j) Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.



### Notes to General Purpose Financial Statements

# (3) Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all other revenues and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

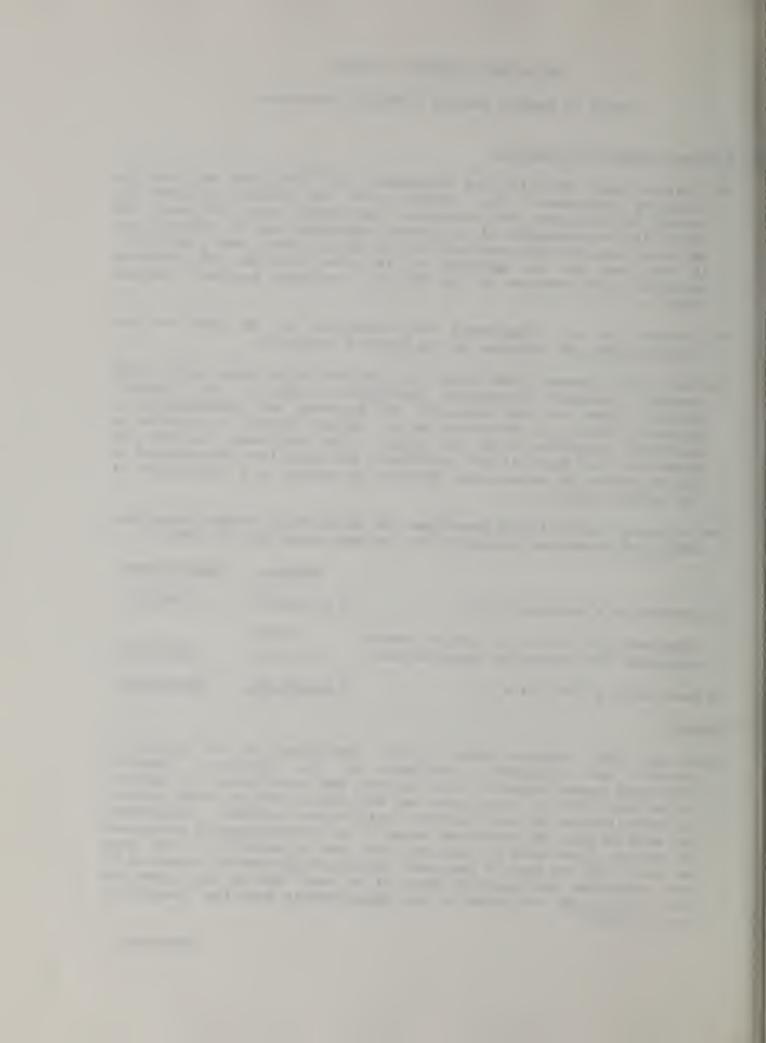
The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures - Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The difference between the budget and GAAP basis is that continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP),

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1991:

		Revenue	Expenditures
As	reported on a budgetary basis	\$ 11,926,377	11,302,624
	Adjustment for accrual of septage revenue Adjustment for continuing appropriations	22,564	(592,427)
As	reported on a GAAP basis	\$ 11,948,941	10,710,197

# (4) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").



### Notes to General Purpose Financial Statements

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$6,700,910, (carrying value \$6,641,048) \$1,693,161 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

# Investments

All of the District's investments are held in the individual member names by the District's investment custodian. All investments are uninsured. Investments at June 30, 1991 consist of the following:

	Cost	Market value
Corporate Bonds	\$ 1,191,671	1,138,500
U.S. Treasury Bills	<u>396,173</u>	399,272
Total Investments	\$ <u>1,587,844</u>	1,537,772

# (5) Property, Plant and Equipment

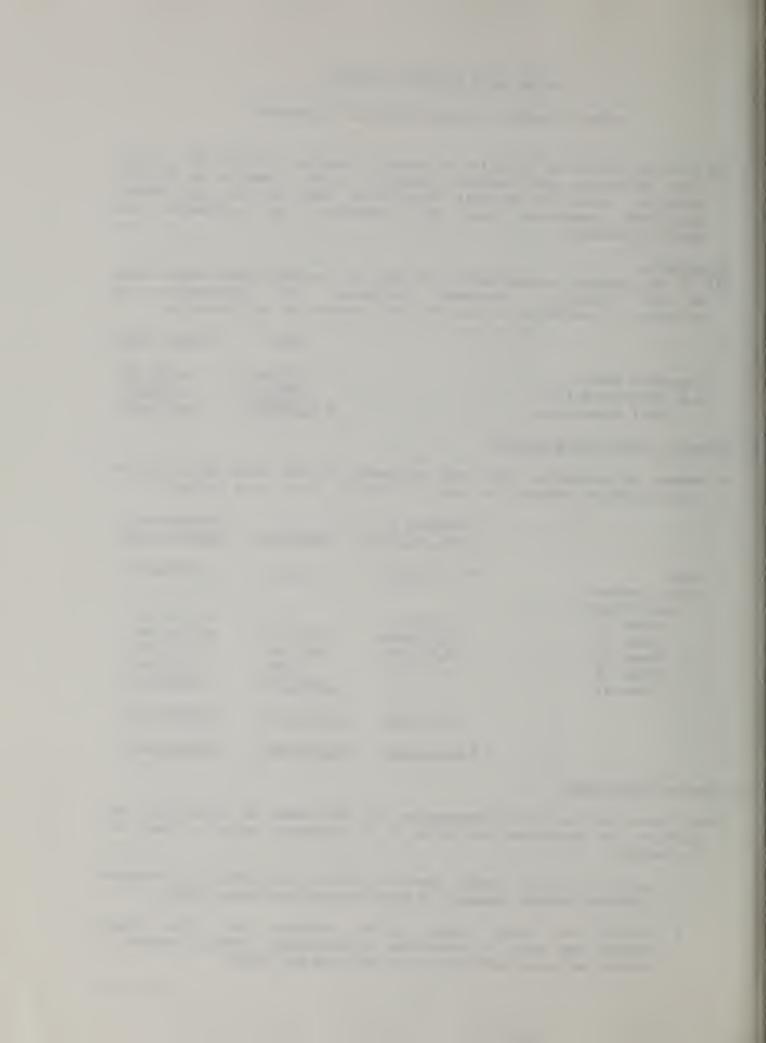
A summary of property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1991, is as follows:

	Balance June 30,	<del></del> -	Balance at June 30, 1991
Land Water treatment facilities:	\$244,	093	244,093
Phase I	11,525,	427 –	11,525,427
Phase II	32,550,	4,169,312	36,719,768
Phase III	22,853,	390 4,840,236	27,693,626
Phase IV	6,241,	213 1,807	6,243,020
Phase VI		1,668,349	1,668,349
	73,170,	10,679,704	83,850,190
	\$ <u>73,414</u> ,	<u>10,679,704</u>	84,094,283

### (6) Temporary Borrowings

Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:

- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS)
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state anticipation notes (FANs and SANs)



## Notes to General Purpose Financial Statements

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were \$1,278,756 and are accounted for in the Capital Projects Fund. At June 30, 1991, the following notes were outstanding:

<u>Type</u>	<u>Bank</u>	Amount	Due Date	Interest Rate	Capital Project <u>Phase</u>
FAN/SAN	Fleet Bank of Massachusetts	\$ 633,000	7/15/91	7.25%	IV
FAN/SAN	Fleet Bank of Massachusetts	800,000	8/6/91	6.10%	ΙΙ
FAN/SAN	Fleet Bank of Massachusetts	3,000,000	8/6/91	5.90%	ΙΙ
FAN/SAN	Fleet Bank of Massachusetts	1,000,000	8/6/91	6.10%	ΙΙ
FAN/SAN	Fleet Bank of Massachusetts	2,000,000	8/6/91	6.10%	ΙΙ
FAN/SAN	Fleet Bank of Massachusetts	699,600	8/6/91	6.25%	ΙΙ
FAN/SAN	Lincoln Trust	300,000	8/6/91	5.95%	ΙΙ
BAN	Fleet Bank of Massachusetts	500,000	11/15/91	5.85%	Λ
FAN/SAN	Fleet Bank of Massachusetts	700,000	11/26/91	5.60%	VI
FAN/SAN	Fleet Bank of Massachusetts	5,051,499	12/18/91	5.90%	II and III

\$ 14,684,099

# (7) Bonds Payable

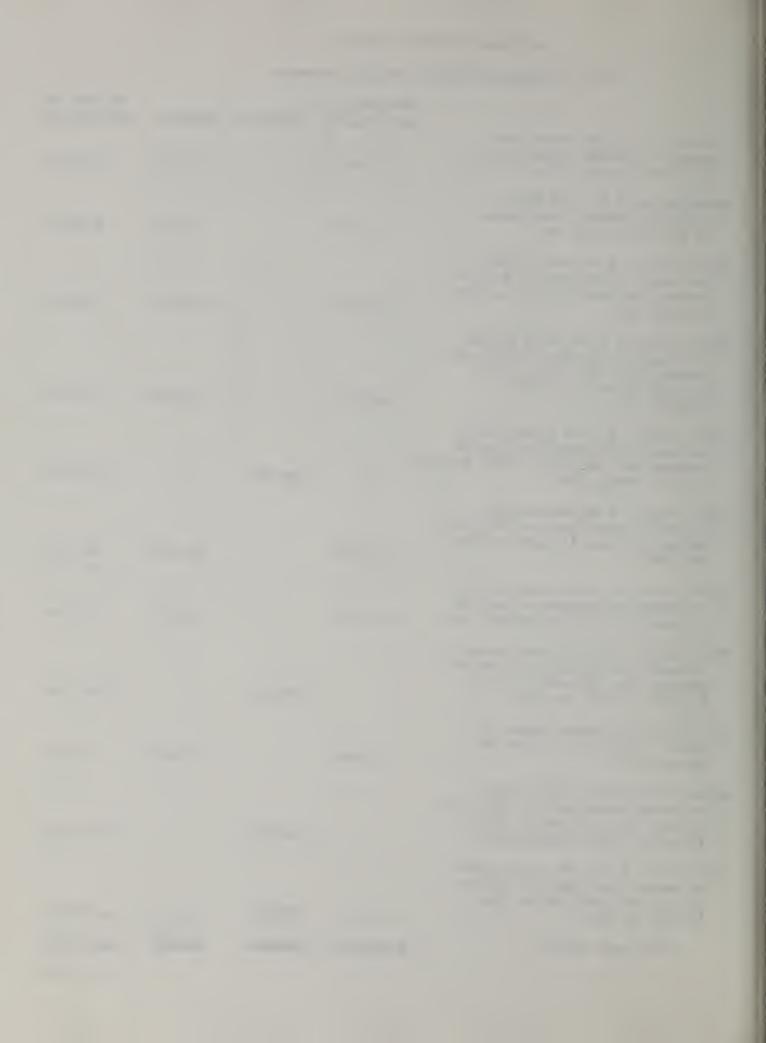
A summary of bonds payable at June 30, 1991 follows:

	Balance at June 30, 1990	Additions	Payments	Balance at June 30, 199
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 880,000	-	70,000	810,000
Second Series A 6.875% serial bonds payable in annual install-ments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	540,000	_	40,000	500,000
, ,	,		,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	
Third Series A 7.6-8.5% bonds payable				
in annual installments of \$55,000 through 2001.	605,000	-	55,000	550,000
Fourth Series A 8.0% bonds payable				
in annual installments of \$10,000 through 1992.	30,000	-,	10,000	20,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1991, \$20,000				
through 1994, \$15,000 in 1995.	95,000	-	20,000	75,000
				(Continued



# Notes to General Purpose Financial Statements

	Balance at June 30, 199	O Additions	Payments	Balance at June 30, 1991
First Series 8 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	1,870,000	-	110,000	1,760,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	715,000	-	65,000	650,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 through 1992.	450,000	- -	150,000	300,000
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1991, \$200,000 in 1991, \$140,000 in 1991, \$135,000 through 1995.	680,000	_	140,000	540,000
Fifth Series B 8.75-9% bonds payable in annual installments of \$70,000 through 2002, \$60,000 in 2003, \$50,00 in 2004 through 2005	00 -	1,000,000	-	1,000,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 and 1992.	455,000	-	155,000	300,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1991, \$60,000 through 1995.	300,000	-	60,000	240,000
Third Series C 8.75-9% bonds payable in annual installments of \$205,000 through 2002, \$200,000 in 2004, \$195,000 in 2003 and 2005.	-	3,050,000	-	3,050,000
Act of 1972 3.0% bonds payable in annual installments of \$40,000 through 1992	120,000	-	40,000	80,000
Salem Acres Project bonds payable in annual installments of \$135,000 through 2002, \$130,000 in 2003, \$125,000 in 2004 through 2005.	-	2,000,000	-	2,000,000
Fifth series B 8.75-9% bonds payable in annual installments of \$15,000 through 2003, \$25,000 in 2004, \$30,000 in 2005.		250,000		250,000
Total bonds payable \$	6,740,000	<u>6,300,000</u>	915,000	12,125,000
				(0:



Notes to General Purpose Financial Statements

The aggregate maturities of long-term debt are as follows:

Year ending June 30:	Amount
1992 1993 1994 1995 1996	\$ 1,330,000 1,330,000 980,000 975,000 765,000
Thereafter	6,745,000
	\$ <u>12,125,000</u>

The Bonds are general obligations of the South Essex Sewerage District and to the extent not paid from other sources, both principal and interest will be payable from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

Bond	Member Cities, Towns and Institutions
Series A Bonds	The Cities of Peabody and Salem
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions: Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm)
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital; Essex County Agricultural and Technical Institute; Essex County Sanatorium; and Essex County Industrial Farm)
Salem Acres Project Bonds	The Cities of Peabody and Salem

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1991, the District was authorized to issue \$30,000,000 of original issue debt in connection with its construction projects.



## Notes to General Purpose Financial Statements

## (8) Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. Each participating employer's share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the System for the year ended June 30, 1991 was \$1,821,241. The total payroll for the District was \$1,849,451.

The System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the System after January 1, 1979 were previously subject to a cap of \$30,000 on the level of compensation upon which their benefit was calculated. Effective June 15, 1990, the \$30,000 salary cap was removed.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. Effective June 15, 1990, any member of the System hired on or after January 1, 1979 will have an additional 2% of his regular pay over \$30,000 withheld. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits.



### Notes to General Purpose Financial Statements

## (b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1991 contribution to the System represented 10.07 percent of total contributions required of all participating employers.

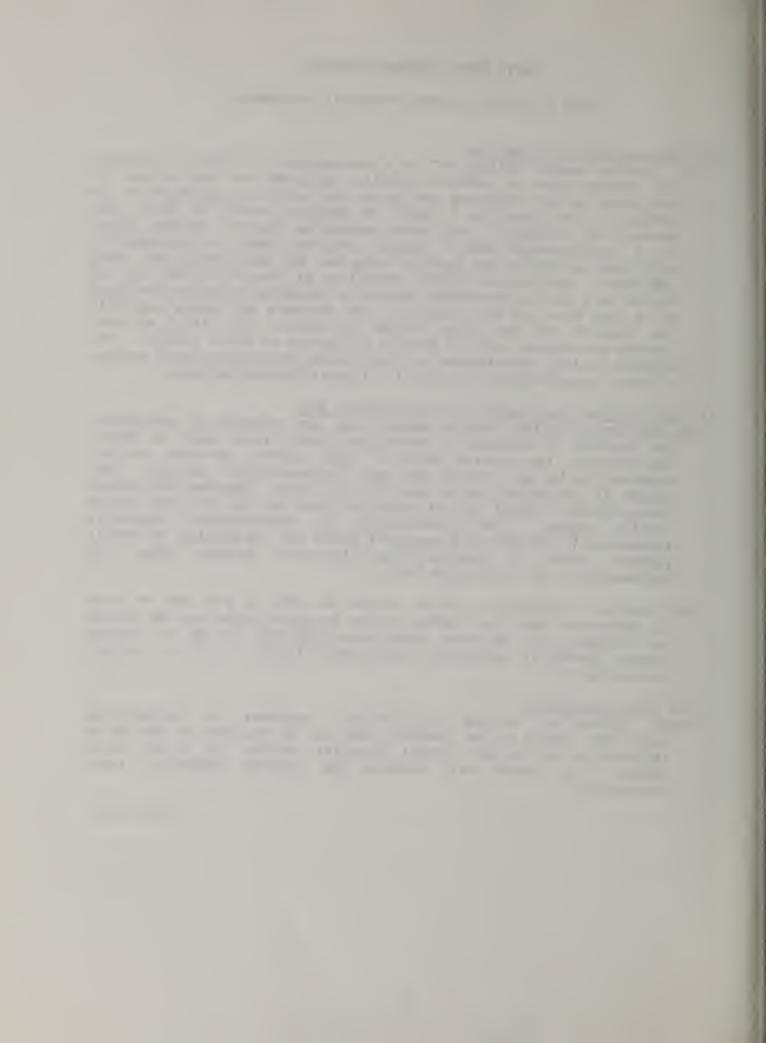
# (c) Contribution Requirements and Contribution Made

The Retirement System funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employee Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the System for 1991 of \$481,689 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$359,339 (18.2% of current covered payroll); employees contributed \$122,350 (6.2% of current covered payroll).

#### (d) Trend Information

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is required by GAAP to be included in the System's annual financial report. It is not known whether this report will contain the required historical trend information.



## Notes to General Purpose Financial Statements

## (9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1991:

Capital projects:

Phase II	\$ (3,584,681)
Phase III	_ (1,333,172)
Salem Acres	(195,646)
Phase VI	(1,444,228)

\$ (6,557,727)

The deficits in these funds will be eliminated through future bond issues and Federal and state grants.

## (10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised in fiscal years prior to 1991, but not expended in fiscal year 1991 are being carried forward to subsequent years as follows:

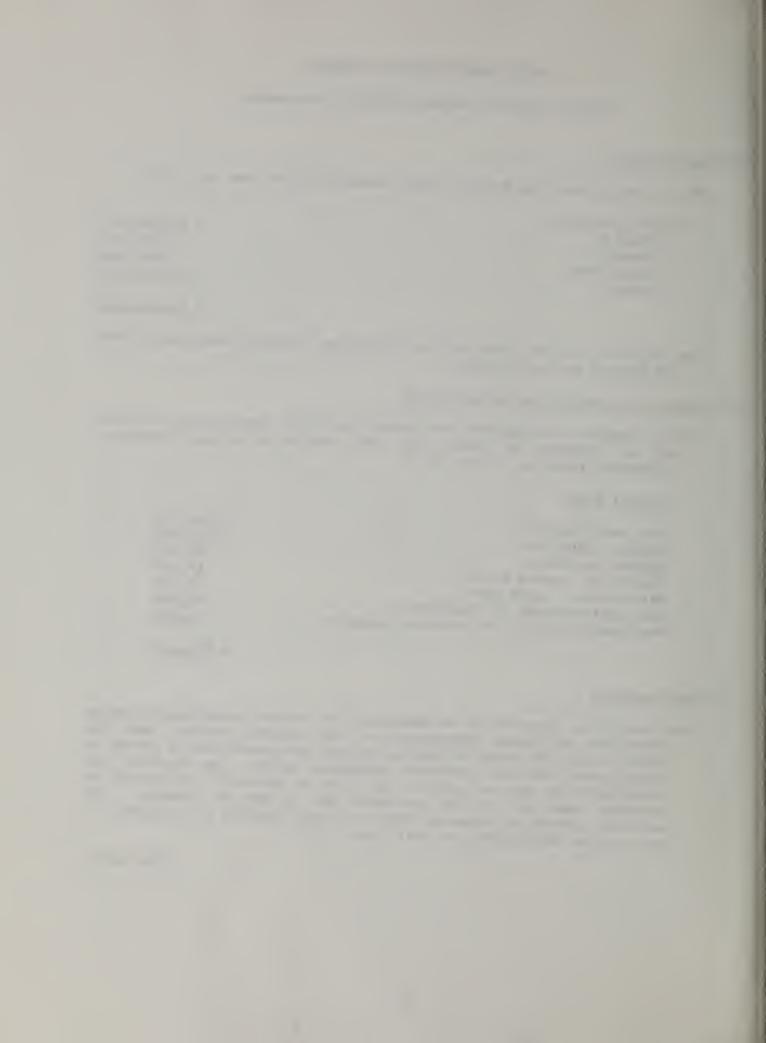
## General Fund

HVAC modifications	\$ 154,000
Chemical addition	206,000
Capital equipment	86,000
Operations - spare parts	15,000
Maintenance - spare parts	17,162
Pump modifications for Marblehead	93,000
Replacement vehicle for district engineer	9,381

\$ 580,343

# (11) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of cleanup. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.



# Notes to General Purpose Financial Statements

# (12) Unreserved Fund Equity

Unreserved fund equity in the General Fund is allocated as follows at June 30, 1991:

Essex County	\$	23,422
State of Massachusetts		131,201
Middleton		53,186
Danvers		249,037
Beverly		366,626
Peabody		811,691
Salem		150,995
Marblehead	-	575,110

\$ 2,361,268



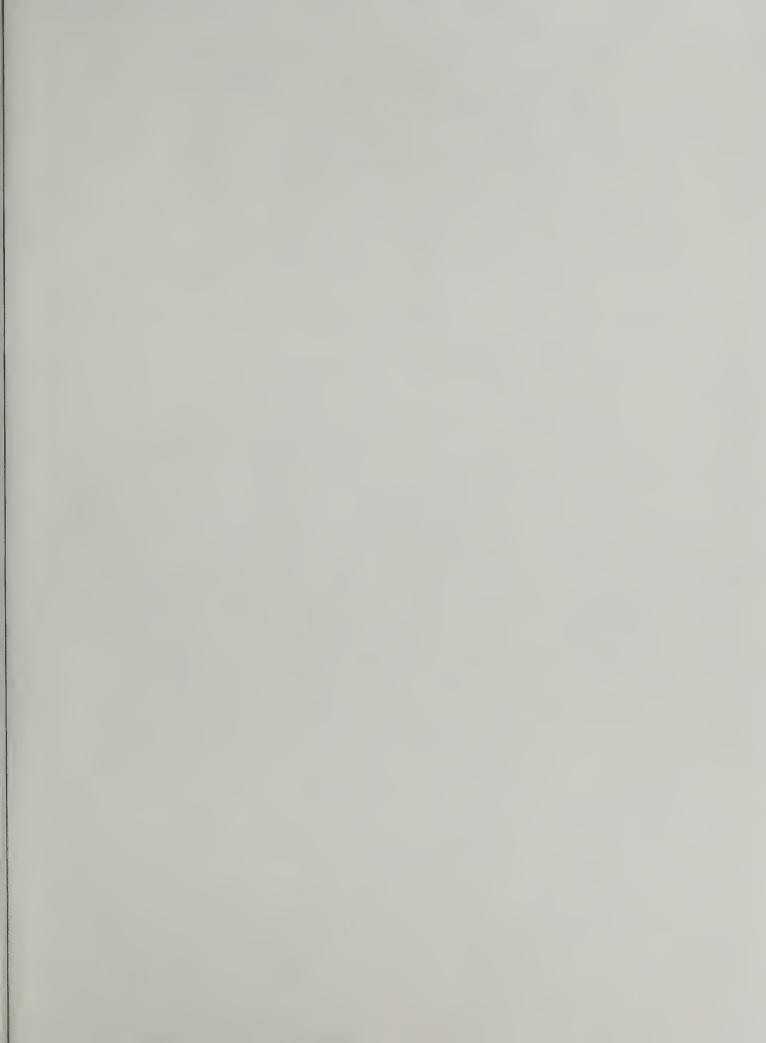
SOUTH ESSEX SEWERAGE DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Fund

Year ended June 30, 1991

Total	6,968,483 387,321 7,355,804	11,461,741	(4,105,937)	6,300,000	2,194,063	(8,629,073)	(48,884)	(56838854)
Phase VI	7,248	5,712,465	(5,705,217)	250,000	(5,445,217)	1		( <u>\$683,894,0)</u> ( <u>\$15,628,2)</u> ( <u>\$263,894</u> )
Phase V Salem Acres	46,911	706,438	(659,527)	2,000,000	1,340,473	(1,536,119)	1	(959,291)
Phase IV	604,307 16,434 620,741	876,69	550,763	1	550,763	(944,014)		672.9
Phase III	4,094,406 140,591 4,234,997	4,793,082	(588,085)	3,050,000	2,491,915	(3,758,003)	1	(1,266,088)
Phase II	2,269,770 172,908 2,442,678	179,778	2,262,900	1,000,000	3,262,900	(2,836,592)		426,308
Phase I	3,229	1	3,229	-	3,229	45,655	(48,884)	•
	Revenues: Intergovernmental Interest	Expenditures: Capital outlay	Excess (deficiency) of revenues over expenditures	Other financing sources - proceeds of bond issues	Excess (deficiency) of revenues over expenditures and other financing sources	Fund balance (deficit), June 30, 1990	Residual equity transferred to General Fund	Fund balance (deficit), June 30, 1991



ACME BOCKB NG CO INC.

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